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Report of the Secretary-General**

Summary

The present report, submitted in compliance with General Assembly resolution 58/202, complements the report of the Secretary-General on follow-up to and implementation of the outcome of the International Conference on Financing for Development (A/59/270). It reviews recent developments in the international financial system with particular relevance to developing countries. It contains estimates of the net transfer of financial resources of regional groups of developing countries in 2003 and updates developments in international financial reform since the preparation of the previous report of the Secretary-General (A/58/369). The report highlights: (a) measures taken by developing countries to contribute to a more stable international financial system; (b) the need for the international community to promote policies to reduce developing countries' exposure to international economic and financial developments, given these countries' susceptibility to shocks; (c) the importance of exploring more appropriate regulatory instruments and more flexible debt instruments to better assist developing countries in reducing the volatility of their external payment positions and the vulnerability of their debt structures to crisis; (d) the need for continued work on crisis prevention and resolution; and (e) the need for the international community to continue the search for acceptable political solutions that can lead to broadening and strengthening the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting.

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I. Net transfer of financial resources of developing and transition economies

1. A net inward transfer of financial resources[1] supplements gross domestic saving and enables countries in the early and middle stages of development to raise investment levels above what could be financed by domestic saving. Yet, developing countries as a group have made increased net outward financial transfers each year since 1997, reducing the amount of domestic saving available to finance development. In 2003, total net transfers from developing countries rose to an estimated $248 billion, surpassing the previous peak in 2002 (see table 1). There was also a net outward financial transfer of $28 billion from countries with economies in transition.

Table 1
Net transfer of financial resources to developing economies and economies in transition, 1995-2003
(Billions of United States dollars)

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003[a]*
Developing economies	43.6	21.2	-3.4	-36.8	-122.8	-183.3	-151.3	-203.5	-247.5
Africa	6.6	-5.0	-4.3	15.9	6.0	-23.9	-11.8	-3.4	-15.8
Sub-Saharan (excluding Nigeria and South Africa)	7.7	5.7	7.6	12.2	9.0	3.2	8.3	6.6	6.6
Eastern and southern Asia	26.2	23.8	-28.7	-130.2	-134.1	-108.2	-107.9	-138.6	-144.6
Western Asia	11.9	0.4	4.7	31.3	-6.6	-51.0	-37.2	-30.3	-36.1
Latin America and the Caribbean	-1.1	2.0	24.8	46.1	11.8	-0.2	5.5	-31.1	-51.1
Economies in transition	3.3	10.7	17.2	16.8	-5.9	-32.6	-20.0	-17.6	-27.8
Memorandum item: heavily indebted poor countries	6.9	7.3	7.8	9.6	10.0	6.5	8.3	8.7	11.0

Source: *World Economic and Social Survey 2004* (United Nations publication, Sales No. E.04.II.C.1).
[a] Preliminary estimate.

2. The large net outward transfer of resources from eastern and southern Asian countries in 2003 was the result of continued strong export growth; complemented by policies to support domestic demand, they combined to produce strong economic growth and high domestic saving rates. In contrast, the net outward transfer of resources from Latin America in 2003 was a result of continued compression of domestic expenditure in adjustment to financial crisis. While export growth strengthened substantially with recovery in global trade and agricultural commodity prices, imports only recovered modestly. Besides making debt repayments, financial outflows were also used to increase official reserve holdings for precautionary purposes.

3. The net transfer of resources from developing to developed countries is also a reflection of overall developments in the balance of payments. Since 1999, a number of developing and transition economies have generated sizeable surpluses in their current accounts, primarily as the result of surpluses in their trade of goods and

services, which in the aggregate amounted to $240 billion in 2003, and rising current transfers ($90 billion). The counterpart to strengthened current-account positions and rising net private capital flows was the accumulation of international reserves on the order of $364 billion in 2003 and net repayments on outstanding debt to both private and official creditors.

4. The unprecedented increase in foreign exchange reserves in 2003, which also continued during the first half of 2004, has been concentrated in a small number of developing countries and transition economies. China accounted for more than 40 per cent of the total, but India, Malaysia, Mexico, the Russian Federation and Turkey also accumulated reserves at high rates, as did Brazil and Venezuela, where reserves were restored to 1997 levels. Argentina also built up new reserves, but they remain at half their 1999 level.[2] The accumulation of reserves is mainly held in low-risk and low-yield government securities of developed countries. They thus represent a net transfer of resources from developing to developed countries, and are a major component of the financing of the increasingly large external account imbalances of some developed countries.

5. The decision by monetary authorities in a number of emerging market economies to intervene heavily in the foreign exchange market in order to avoid an appreciation of their currencies against the United States dollar has also produced increasing reserve positions. This has been particularly evident in China's defence of the exchange-rate band of the *renminbi* vis-à-vis the United States dollar, but monetary authorities in a number of other countries reacted similarly.[3]

6. The policies of developing countries reflect the decision that the cost of large holdings of foreign reserves in terms of the domestic investment and imports foregone is outweighed by the benefits of a stable exchange rate, high export growth and "self-insurance" against capital account volatility. While these costs might be reduced with more flexible exchange rate policies, in the absence of clear evidence that similar benefits could be attained, most countries have resisted this suggestion.

7. This net transfer of resources from developing to developed countries has coincided with increases in net capital flows to many developing countries and countries with economies in transition in 2003. With respect to the net financial flows component of the net transfer of resources, table 2 shows that developing countries received $93 billion in net financial flows in 2003, a substantial increase from 2002 and the preceding two years. These net flows were boosted by a recovery in private financial flows to the highest level since the Asian financial crisis in 1997, the result mainly of a turnaround in banking flows to developing countries after many years of net outflows.

Table 2
Net financial flows to developing economies and economies in transition, 1993-2003
(Billions of United States dollars)

	Average						
	1993-1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003[a]*
Developing economies							
Net private capital flows	163.1	47.2	66.2	30.4	2.7	20.5	92.5
Net direct investment	87.8	130.2	145.7	149.8	164.1	112.8	102.6
Net portfolio investment[b]	68.0	26.4	68.2	9.6	-90.8	-91.7	-75.8
Other net investment[c]	7.3	-109.5	-147.7	-129.1	-70.7	-0.6	65.7
Net official flows	15.9	35.6	6.8	-10.6	32.8	5.3	0.5
Total net flows	179.0	82.8	73.0	19.7	35.5	25.9	93.0
Change in reserves	-78.8	-32.9	-84.8	-93.6	-95.4	-170.3	-324.9
Economies in transition							
Net private capital flows	13.5	30.2	20.4	11.8	17.9	26.5	38.7
Net direct investment	11.2	22.7	25.5	25.2	24.9	26.5	16.7
Net portfolio investment[b]	3.0	12.0	-2.2	-3.4	-4.9	-6.9	-11.7
Other net investment[c]	-0.7	-4.6	-2.9	-9.9	-2.2	6.9	33.7
Net official flows	7.0	11.7	-0.4	-3.8	-7.1	-2.1	-5.9
Total net flows	20.5	41.9	20.0	8.0	10.8	24.4	32.7
Changes in reserves	-12.9	-1.7	-7.9	-23.3	-18.1	-25.7	-39.0

Source: *World Economic and Social Survey 2004* (United Nations publication, Sales No. E.04.II.C.1).
[a] Preliminary.
[b] Including portfolio debt and equity investment.
[c] Including short- and long-term bank lending: owing to data limitations, may include some official flows.

8. Foreign direct investment (FDI) continues to be the most important source of external financing for developing countries, although net inflows of FDI in 2003 fell to their lowest level since 1996 and roughly 63 per cent below their peak in 2001. This may well reflect a change in FDI trends as the wave of privatization, which had been an important driving factor for FDI in the 1990s, has been levelling off.

9. The fall in FDI was, however, more than compensated by other private flows such as net bond and equity flows, so that total net private capital flows to developing countries showed a considerable increase. According to International Monetary Fund (IMF) data based on balance-of-payments statistics, they amounted to more than $131 billion in 2003, their highest level since 1997.[4]

10. These developments have to be seen against the background of investor diversification of portfolios, the recovery of global growth, the improved prospects for growth and stability in many developing and transition economies and sustained low interest rates that produced an increase in private financial flows to developing countries in 2003. Low interest rates and ample liquidity in developed economies encouraged international investors to search for higher returns in the form of higher-risk financial instruments, including high-yield corporate bonds of developed

countries and the bonds and stocks of emerging markets. At the same time, improving prospects for economic growth and corporate profitability led investors to reduce their required risk premia.

11. The improvement in investor sentiment towards emerging markets was reflected in falling spreads, which by January 2004 had reached an historic low, and lower borrowing costs. In particular, there was a significant tightening of the spread between the yield on emerging market bonds and the benchmark United States Treasury bonds during 2003. Low rates of return in developed countries increased the attractiveness of emerging market assets, and higher risk tolerance of international investors enabled lower-rated borrowers to regain access to international capital markets. Among developing countries, the compression in yield spreads was particularly sharp on bonds of a number of Latin American countries and Turkey, which had been pushed to very high levels early in 2003 by financial crises and geopolitical concerns. For example, by January 2004, the spread on Brazilian bonds had fallen below 500 basis points from more than 2,000 basis points in early 2003. Among the economies in transition, yield spreads on Russian bonds reached historically low levels towards the end of 2003, benefiting from continued strong economic growth, exports and the increase in its sovereign bond rating to investment grade.

12. However, yield spreads on bonds of most emerging market countries widened and access to credit markets became more restricted in the first half of 2004 amid concerns about rising interest rates in the United States, renewed threats of terrorism and political uncertainty in some developing countries. This reversal occurred despite generally improving economic conditions in developing and transition economies and reflects the vulnerability of these countries to changes in the international economic environment.

13. Net official flows continued to decline in 2003 as net flows from the multilateral development and financial institutions fell to negligible levels, despite considerable increases in flows of official development assistance from the member countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Net financial flows to countries with economies in transition continued to increase in 2003, but did so more moderately than in 2002.

II. Reform of the international financial system

14. The major focus of international financial system reform in 2003 was on early identification of debt-related systemic vulnerabilities, strengthening the role of surveillance and enhancement of its pro-growth orientation, and better coordination of multilateral and regional surveillance. Additional incidents of corporate fraud and mismanagement renewed concerns about corporate financial reporting, auditing and governance, especially in developed countries. Along with preventive measures, improving the overall framework for the resolution of capital-account crises in developing countries with significant access to international financial markets has been the core issue of the international policy agenda. The policy emphasis in this area has been to insert more certainty and predictability into the process for resolving crisis situations.

A. IMF surveillance

15. In addition to concentration on traditional macroeconomic policies, IMF surveillance has been expanded to include structural and institutional policies, improvement of the transparency of countries' policies, observance of various standards and codes and assessment of financial sector soundness. As of end-December 2003, more than 100 countries had participated, or had agreed to participate, in a financial sector assessment under the joint Bank-Fund financial sector assessment programme, and 491 reports on standards and codes modules had been completed for 101 countries.

16. Along with expanded surveillance coverage, there have been efforts to increase the transparency of IMF assessments of member countries. In June 2003, the Executive Board agreed that after 1 July 2004 publication of IMF article IV surveillance reports and programme documents, as well as reports on use of Fund resources by member countries, would be presumed rather than voluntary. Also after July 2004, the publication of staff reports related to exceptionally large drawings on Fund resources would become a condition for approval.

17. Nonetheless, considerable work remains to be done on crisis anticipation and prevention. Since developing countries are the only current borrowers from the Fund, surveillance may concentrate on these countries, with emphasis on the policies of the major developed countries that have a greater impact on global conditions. Strengthening the impact of surveillance on developed economy policies will probably continue to be one of the major challenges of efforts to further improve the overall surveillance framework.

18. On the other hand, in some cases, the concentration on implementation monitoring of Fund programmes in borrowing countries has led to inadequate assessments of the overall impact of policies on economic performance and the emergence of serious imbalances. Accordingly, there have been calls to strengthen surveillance in programme countries, particularly in those countries that have had IMF arrangements over an extended period of time, by stepping back from monitoring programme implementation to undertake a fresh and critical assessment of policies from a medium-term perspective.

19. In conducting surveillance exercises, it is often not enough to inform country authorities of problems of policy incompatibility or incoherence. Rather, surveillance should contribute more to helping countries find economically, politically and socially acceptable policy solutions. An example is the focus on improving public expenditure management in the middle-income countries while ignoring the impact of protracted fiscal adjustment on public investment, particularly in infrastructure, and, hence, on medium-term growth prospects. To help minimize inappropriate constraints on public investment, the Fund is now working on fiscal policy and accounting issues related to public investment, with a view to finding ways to ensure that productive public investment is given increased priority and is appropriately protected during periods of fiscal adjustment. To test the new approach to public investment issues, the Fund is carrying out pilot case studies in several countries, including Brazil, Chile, Colombia and Peru. The results of these studies are expected to be discussed by the Executive Board in the first quarter of 2005.[5]

20. In the past, overly optimistic growth projections have often been an important element in the failure to identify vulnerabilities. This calls for more realistic macroeconomic projections and more conservative assessment of sustainable debt levels in the event of adverse circumstances in vulnerability analyses. More generally, Fund surveillance has not always produced early identification of vulnerabilities and induced needed policy changes. In particular, not only the IMF, but also the policy makers in emerging market countries, as well as the financial markets, were slow to recognize the magnitude and the risks associated with the debt build-up in these countries.

21. Better assessment of a country's debt burden and its ability to service that debt is particularly important to both crisis prevention and resolution. The international community has thus sought to strengthen its understanding of debt sustainability and the policies and measures suitable to help borrowing countries service their debt during difficult periods without an unrealistically large contraction in national income and expenditure. In this regard, particular attention is being paid to debt sustainability assessment, balance sheet analysis, liquidity management and financial soundness indicators. These major areas of work to strengthen surveillance are interlinked and centred on improved capacity to address debt problems.

22. In 2002, the IMF introduced a new analytical framework for assessing both fiscal and external debt sustainability in countries with significant access to international financial markets.[6] This framework is now being applied in the context of surveillance with IMF resources. It can also guide debtors and creditors in their discussions on how much debt reduction is required to achieve a manageable repayment schedule.

23. The balance-sheet approach[7] complements traditional analysis of flow variables, such as current account and fiscal balance, by examining stocks and structures of assets and liabilities. According to the Fund, the approach provides a useful analytical framework to detect currency mismatches (a predominance of liabilities denominated in foreign currency over assets denominated in foreign currency) and other balance sheet weaknesses of an economy and its main sectors, which could help strengthen vulnerability analysis and policy advice. Unlike the debt sustainability framework, balance sheet analysis is not yet a regular element of Fund surveillance. As balance sheet analysis is very data-intensive, establishing the necessary database will take much time and effort in many emerging-economy countries. As in the case of the liquidity management framework and financial soundness indicators, the balance sheet approach requires further analytical work. Moreover, given that all these approaches, including the debt sustainability framework, basically target the problem of debt, it is important to assess how they may be incorporated in order to form an integrated view of their implementation.

24. A closely related issue is the proper targeting of surveillance. It is essential that surveillance be tailored to address the circumstances of each country. Over the past several years, surveillance coverage has broadened significantly. However, the policy message given by the surveillance exercise must not be diluted by a standardized approach. In many cases, simplicity and speed might achieve much better results than over complexity and associated slowness of the overall process.

B. Regional cooperation

25. The increased frequency of financial crises in the 1990s has renewed interest in regional monetary cooperation as a means of achieving greater regional financial stability. The most advanced initiative to further monetary and financial cooperation is in East Asia. In May 2000, 10 member States of the Association of South-East Asian Nations (ASEAN) plus three countries (China, Japan and the Republic of Korea) adopted the Chiang Mai Initiative to strengthen regional cooperation through an expanded network of swap facilities among their central banks. The Initiative involves extending the existing ASEAN swap arrangements and establishing a network of bilateral swap arrangements between the ASEAN countries, China, Japan and the Republic of Korea (ASEAN+3). As of May 2004, 16 bilateral swap arrangements out of possible 30, had been concluded with a combined size of $36.5 billion.[8]

26. ASEAN is also engaged in the regional policy dialogue to improve cooperation activities in the areas of surveillance and monitoring, including of capital flows. The surveillance system, put in place in 1999, is basically confined to a semi-annual informal general discussion of the global and regional economic outlook. The efforts currently being made at the institutional level concern the development of early warning systems and monitoring short-term capital flows. There is an understanding that, once the bilateral swap arrangements network is completed, a more formal, rigorous surveillance system may be needed. In May 2004, the ASEAN+3 finance ministers agreed to undertake further review of the Initiative to explore ways of enhancing its effectiveness.

27. Policy discussions are also under way in other developing country regional groupings, including the West African Economic and Monetary Union, the Central African Economic and Monetary Community, the Eastern Caribbean Currency Union and the Maghreb countries associated with the European Union. IMF is increasing its participation in regional surveillance groups and is working towards better coordination of discussions with regional institutions and individual members.

C. Recent developments in the area of international standards and codes, financial regulation and supervision

28. Over the past several years there has been increasing focus on weakness in accounting, auditing and corporate governance in developed countries. In this regard, the eleventh meeting of the Financial Stability Forum, held in Rome on 29 and 30 March 2004, discussed the issues raised by the recent incidents of securities fraud and market abuses, including the Parmalat case, which highlighted the need to further strengthen financial reporting frameworks, as well as the implementation of existing standards. The Forum welcomed the creation, in February 2004, of a special Chairmen's task force by the International Organization of Securities Commissions Technical Committee to look into these issues. The Forum also underscored the importance of the November 2003 decision of the Council of the International Federation of Accountants to approve, among other governance reforms, the creation of a public interest oversight board to oversee the Federation's standard-setting activities.

29. These recent incidents also drew attention to the need to improve information exchange, international cooperation and the corresponding regulatory arrangements in dealing with large firms with complex corporate structures operating in multiple jurisdictions. In this connection, the Forum commended the International Accounting Standards Board for its improvements of existing standards and for progress in the convergence of the standards of that Board and United States Financial Accounting Standards Board standards.

30. In March 2004, the European Commission proposed a new directive on statutory audit in the European Union (EU). As in the Sarbanes-Oxley Act in the United States, companies would have to set up independent audit committees with rotating auditors, with all auditors and audit firms undergoing quality assurance reviews. An EU-wide audit regulatory committee and extensive cooperation between member regulators would be established.

31. Primary responsibility for preventing accounting and auditing irregularities in public companies lies with the boards of directors and management of the companies themselves. The Forum has thus considered that the OECD principles of corporate governance, as one of the 12 core sets of standards and codes that it advocates, should be widely adopted. In response to accounting scandals in industrial countries, OECD has recently revised these principles. The revised principles envision strengthening the capacity of companies' shareholders in corporate governance. Also, in cooperation with the World Bank, OECD has established the Global Corporate Governance Forum to promote continuing dialogue on corporate governance.

32. In May 2000, the Financial Stability Forum encouraged offshore financial centres to strengthen their regulatory, supervisory, cooperation and information exchange arrangements and asked IMF to put in place a programme to assess the centres. As of April 2004, 39 of 42 offshore financial centre jurisdictions had been assessed by IMF. According to the Forum, significant reforms have been initiated in most centres in response to its initiative. However, important shortcomings still remain. The momentum for reforms therefore needs to be sustained, which may require additional technical assistance, especially to centres with lower levels of income.

33. In March 2004, the IMF Executive Board reviewed the 12-month pilot programme of anti-money-laundering and combating the financing of terrorism assessments. The Board also endorsed the revised 48 recommendations of the Financial Action Task Force on Money-Laundering as the new standard for such assessments, as well as the revised methodology to assess that standard. The exercise has shown that many low-income countries face challenges in implementing the assessment measures due to insufficient resources and training. Compliance with the eighth newer special recommendations on terrorist financing also remains weak in many countries.

34. As part of its efforts to strengthen measures against the financing of terrorism, the Task Force held a special seminar in February 2004, focusing on the risks posed by alternative money transfer systems, cash couriers and non-profit organizations, as well as on the links between narcotics trafficking and terrorist financing. In the meantime, it announced in February 2004 that it had removed Ukraine and Egypt from its list of non-cooperative countries and territories, due to substantial reforms in the two countries.[9]

35. Meanwhile, the Basel Committee on Banking Supervision has continued work on the New Basel Capital Accord. On 26 June 2004, central bank governors and the heads of bank supervisory authorities in the Group of Ten (G-10) countries met to endorse the new capital adequacy framework entitled "International convergence of capital measurement and capital standards: a revised framework", commonly known as Basel II.[10] The implementation of the New Accord, mainly designed for large, complex and internationally active banking organizations, is scheduled to take effect in the G-10 member countries by year-end 2006. However, the Committee has indicated that a further year of impact studies or parallel calculations will be needed for the most advanced approaches, and therefore these will be available for implementation as of year-end 2007. To that end, work has already begun in a number of developed and emerging market economies on draft rules that would integrate the new Basel capital framework with national capital regimes. However, for many developing countries, moving to the New Accord may not be as important as addressing deficiencies in existing supervisory, capital adequacy and loan-loss provisioning frameworks with appropriate assistance from the international community.[11]

36. The consensus on Basel II does not necessarily indicate that the interests of the developing countries have been fully taken into account, since these countries have no formal representation on the Committee itself. Indeed, some observers have suggested that the new capital framework's heightened sensitivity to risk may reduce foreign lending to developing countries and raise its costs, since exposure to those economies might typically be considered of higher risk. In this regard, it has been suggested that to avoid these negative effects, Basel II should consider the diversification of credit portfolio across both developed and developing markets as an important risk-reducing factor. The Committee has included this issue in its agenda for future work. Another unintended result of the application of the more risk-sensitive New Accord might be an increase in the pro-cyclicality of bank lending, especially to developing countries. In this regard, the architects of Basel II note that supervisory oversight and market discipline should reinforce the incentive for banks to maintain a cushion of capital above the minimum so as to have a margin of protection in downturns. They are also urging financial institutions to adopt risk management practices that take better account of the variations in risk over time and that are not excessively vulnerable to short-term changes. Nevertheless, the regulators' success in dealing with this problem remains a concern for, like traditional prudential financial regulation, Basel II does not fully take into account the macroeconomic context. Hence, in order to prevent excessive risk-taking during boom periods, there may be a need for regulatory instruments that better recognize the connection between macroeconomic cycles and risk-taking by financial institutions.

D. Towards a more stable pattern of external financing

37. One of the major reasons for the persistence of financial troubles in many middle-income countries seems to be the high volatility of their debt service relative to the capacity to pay. Unlike developed countries, most emerging market economies cannot borrow abroad in their own currencies even if they have high-quality policies and strong institutions. Therefore, movements in the exchange rate seriously affect the domestic burden of debt service, and this is a much more

important source of vulnerability than the volatility associated with fluctuations in income. Interest rates on emerging market debt are not only higher than those on developed country debt; they are also subject to large fluctuations when markets change their assessments of the riskiness of a country's debt. This is further affected by domestic interest rate volatility, associated with exchange rate expectations and variations in country risks, as well as by the domestic policies of national monetary authorities.

38. In the past, such changes were the source of sudden and sharp rise in developing countries' debt burdens and a cause of severe external debt difficulties for some countries. Many emerging economies experienced difficulties in meeting external claims at levels of debt indicators equivalent to or even significantly lower than those in many developed countries. This can occur even if a country's macroeconomic policies are sound. Past experience includes several cases where countries previously viewed as having a sustainable debt situation subsequently experienced an external debt crisis.

39. Accordingly, along with further improvement of debt sustainability analysis, the international community is working on ways to help debtor countries better monitor their evolving debt-servicing obligations, particularly to avoid rapid increases in such obligations during external crises. This entails not only prudent debt management, but also reserves policy, prudent use of capital account regulations, access to international liquidity and reducing volatility at the source.

40. Servicing difficulties are often the result of the pro-cyclical nature of official development financing, as well as private flows, as developed countries reduce aid budgets in periods of global slowdown. Measures to improve the counter-cyclical nature of official aid flows and to better coordinate their variations with developing country export earnings would also improve debt sustainability. The latter is of particular importance for the least developed countries.

41. To lower exposure to risk of debt crises, there have been proposals to issue debt instruments whose debt service obligations fluctuate with countries' capacity-to-pay. These have included bonds with coupons indexed to gross domestic product (GDP). There is also some interest in exploring financing arrangements that include guarantee schemes and other mechanisms to reduce the cost of debt during crisis periods. Another proposal calls for international financial institutions to help develop an international market in a basket of inflation-indexed developing country currencies to allow lending in each country's CPI-indexed local currency. According to the proponents of this proposal, with a more complete set of market instruments, developing countries will be in a better position to cope with volatility.

42. Another even more important long-term strategy would foster the development of domestic currency bond markets. The development of these markets has the potential to reduce exposure of emerging economies to maturity and exchange rate mismatches and to risks of sudden loss of access to foreign capital markets. In some cases, enhanced regional cooperation may accelerate the development of bond markets by combining relatively small national markets into a broader regional one. The process of regional bond market integration and development is most advanced in East Asia.

43. In June 2003, the Executives' Meeting of East Asia and Pacific Central Banks Group (EMEAP)[12] launched the Asian Bond Fund 1 (ABF1). The purpose of ABF1

is to diversify a small portion of the Group's United States dollar reserves by investing in securities of Asian sovereign and quasi-sovereign dollar issuers in EMEAP economies (other than Australia, Japan and New Zealand).

44. After the launch of ABF1, the EMEAP members started discussions on ABF2 investing in the participating countries' local currency sovereign and quasi-sovereign bonds. In April 2004, EMEAP announced a preliminary framework for ABF2. EMEAP is aiming to design ABF2 in such a way that will facilitate investment by other public and private sector investors along with central banks.

45. The Asian Bond Fund Initiative represents an important step in strengthening regional financial cooperation in East Asia and in promoting the demand for regionally issued bonds. The development of bond market infrastructure and the synchronization of rules and regulations on cross-border flows are at least equally important. These issues are being addressed through the Asian bond market initiative, a joint project of Asia-Pacific Economic Cooperation and ASEAN+3.

D. The modalities of official liquidity provision

46. The multilateral financial institutions have a long-standing responsibility to provide adequate financial support to assist countries in undertaking appropriate economic adjustments to balance-of-payments problems. Over the past year, the focus has been on trade-related financing, precautionary arrangements that could help prevent capital-account crises in emerging markets and the role of official resources in crisis resolution.

Trade-related financing

47. The sharp contraction in trade financing to the developing countries during recent financial crises has highlighted the need to improve the stability and the security of its sources. Accordingly, the international community is exploring various schemes to support trade finance.

48. The World Trade Organization (WTO) organized a meeting of experts in the area of trade financing in January 2004, as a follow-up to the earlier meeting convened by the IMF in 2003, to discuss ways of improving developing countries' access to trade financing, particularly in periods of financial crisis. It reviewed the effectiveness of credit lines or guarantees supplied by international public agencies in the light of lessons drawn from the Asian financial crisis, when targeted temporary financing proved helpful. The experience since then suggests that an effective strategy could be built around multilateral development banks trade finance facilities, complemented by a more coordinated approach by official export credit agencies. A short-term trade-facilitation "global alliance", involving nearly all regional development banks, is now being established. Recent experience also suggests that multilateral development banks trade finance facilities can be effective in mobilizing additional private sector funding and providing risk pooling opportunities for private and public trade credit providers and insurers. Trade finance not only supplies liquidity necessary for efficient trade, but also enables less creditworthy and poorer countries to access international capital markets at a lower cost.[13]

49. The current round of negotiations under the General Agreement on Trade in Services can be used to make the provision of trade financing more secure and more readily available to developing countries. Indeed, WTO was directed, at its fifth ministerial meeting in Cancún, to contribute to efforts to maintain trade finance during crises.

50. In April 2004, the IMF Executive Board approved the trade integration mechanism (TIM) to assist member countries in meeting short-term balance of payments shortfalls related to the implementation of trade liberalization measures by other countries. Payments difficulties resulting from reforms of a country's own trade regime will continue to be addressed under previously established policies. TIM is not a new lending facility. Rather, it is a policy aimed at making existing instruments more predictably available for supporting trade liberalization. Accordingly, financing terms and the conditionality under TIM will be those of the underlying facility.

51. In March 2004, IMF concluded the review of the Compensatory Financing Facility (CFF) to help cope with temporary export revenue shortfalls caused by exogenous shocks in developing countries' export markets. Established in 1963, the facility has not been used since 1999. For middle-income countries the usefulness of CFF has diminished as a result of increased access to international capital markets and the need to enter into a regular stand-by arrangement to draw on CFF, in contrast to its original design and intention. Although low-income countries have very limited access to capital markets and official bilateral financing may not be flexible enough to deal with temporary shocks, CFF is not attractive to these countries because of its non-concessional nature. IMF is currently considering extending the Poverty Reduction and Growth Facility to cover CFF conditions, rather than subsidizing the rate of charge for standby or CFF resources.

Precautionary financial arrangements

52. Over the past several years, there have been attempts to develop some form of contingent financing that can be mobilized quickly and on a sufficiently large scale to provide financial support for middle-income countries that face potential capital account crisis. The contingent credit line (CCL), introduced by IMF in 1999, was intended to achieve this objective. However, the facility was never used, and it expired in November 2003. The key problem was that application for CCL approval could be viewed by the market as a sign of weakness, thereby reducing, rather than strengthening, confidence in the country. Also, since the Asian crisis, most emerging markets have adopted "self-insurance policies", including increased foreign exchange reserves, more flexible exchange rate management, changes in liability management practices, strengthening domestic financial institutions and implementing international standards and codes. To the extent that these policies reduce the need for external financing, they have reduced the need for recourse to a CCL.

53. Nevertheless, the lack of a facility providing large-scale financial support to middle-income countries is a significant gap in the set of tools available for crisis prevention. IMF is thus exploring other ways to achieve the objectives of CCL. One of the possibilities is to adapt an existing instrument — standby precautionary arrangements that are typically used when balance of payments pressures are more likely to arise in the current account — to the needs of countries facing potential

capital-account shock. It is vital that the Fund have the capacity to respond quickly to financial needs of member countries that have sound policies but are nevertheless challenged by the actions of the globally integrated capital markets. Discussions are under way on the role that precautionary arrangements can play in preventing capital-account crises and on the access required for this insurance to be meaningful.

The role of official financing in crisis resolution

54. A critical component of crisis resolution is having clear parameters for official intervention. To improve clarity and predictability of official response to capital-account crises, IMF has introduced a framework for exceptional access to its resources. The Fund is prepared to provide larger loans than normally allowed if a country meets the following criteria established in 2002: exceptionally large need; a debt burden that will be sustainable under reasonably conservative assumptions; good prospects for regaining access to private capital markets during the period of the IMF loan; and indications that the country's policies have a strong chance of succeeding.

55. In May 2004, the IMF Executive Board assessed the experience with the new framework, which had been applied in the decisions on Argentina and Brazil. It was noted that the framework had helped improve the clarity and the predictability of the Fund's response to the capital-account crisis. Given the limited experience with the framework, it was decided not to change the exceptional access criteria at this point in time.

56. Among those criteria, the central, and most controversial, is the judgement about debt sustainability. Despite progress in debt sustainability analysis, it is very hard to assess the nature of financial difficulties in the middle of a crisis situation. More sophisticated analytical tools notwithstanding, the key test will continue to be the judgements that are made under uncertainty and political pressure. In order to be credible, those judgements should be as consistent as possible in providing signals to markets concerning when the international community's support will be forthcoming and when it will not.

57. As a result of programmes involving exceptional access, Fund credits to the three largest borrowers (Argentina, Brazil and Turkey) now exceed 70 per cent of total credit outstanding.[14] This increased concentration in lending has been accompanied by more prolonged use of official resources by some middle-income countries with access to international capital markets. By the same token, an increase has also occurred in the Fund's share of large borrowers' external debt. For instance, in Argentina, this ratio rose from 17 per cent to over 22 per cent from the end of 2000 to the end of 2001.[15] Some view this as contrary to the concept of catalytic financing and that it may put at risk the preferred creditor status of the Fund. However, as the Argentina experience indicates, it may lead debtor countries to impose larger reductions of debt service obligations to private creditors to be able to fully service the debt with multilateral institutions, which thus maintain their preferred creditor status. This outcome would appear to negate some of the major assumptions regarding "moral hazard" effects of official lending; in any case, it questions the rationality of increasing such financing when countries have an unsustainable debt burden.

E. Sovereign debt restructuring[16]

58. It is recognized that when debt burdens are truly unsustainable the support of the international community should be accompanied by orderly, predictable and effective debt restructuring. Otherwise, committing Fund resources may compromise its credibility, thereby making the whole process of crisis resolution even more, not less, uncertain. Over the past several years, the international community has made efforts to develop a strategy capable of helping insolvent middle-income countries return to long-term debt sustainability and restore access to private financing.

59. In this regard, it has been suggested that the implementation of the Fund's "lending into arrears" framework should be strengthened. Under this policy, the Fund will disburse loans under one of the regular programmes even if the country is in arrears to its private creditors provided that it makes a strong effort to resolve the arrears. However, this requirement is thought by many as not being sufficiently specific. Accordingly, the development of more operational criteria for judging compliance with the good faith requirement, as well as more rigorous assessments using these criteria, are considered very important. Enhanced clarity could better guide the expectations of investors and debtor countries, thereby fostering the process of debt restructuring negotiations.

60. Although progress has been made on several important issues relating to the process of debt restructuring, agreeing on a statutory approach to reaching a speedy and fair agreement with creditors that may help reduce social and economic costs of default will likely continue to be a major challenge. In reaching a consensus on what the process should involve, legal complexities most likely will not be the most difficult issue. Rather, the hardest and most important part of the problem will be to identify appropriate actions and then reach broad agreement on economic and financial policies and strategies that can help dismantle unsustainable debt structures with minimum damage to the country and its people, as well as to the integrity and the efficiency of international credit markets.

F. Enhancing voice and participation of developing countries

61. The Monterrey Consensus stresses the need to broaden and to strengthen the participation of developing countries and countries with economies in transition in international economic decision-making, both in multilateral intergovernmental institutions and ad hoc forums setting global standards. It encourages the Bretton Woods institutions to continue to enhance the effective participation of these countries in their activities.

62. The recent process for appointing the new IMF Managing Director has produced renewed requests for a more democratic and transparent governance of the Bretton Woods institutions. In March 2004, a group of IMF executive directors representing more than 100 countries called for an open and transparent selection process to attract the best candidates, regardless of nationality.

63. As for voice of developing countries in governance of the Bretton Woods institutions in general, a number of measures have been taken recently to enhance capacity in some developing country executive directors' offices and in capitals of these countries, including the creation of additional staff positions within the two

very large African constituencies, to make them more manageable and representative. Also, an analytical trust fund to assist executive directors representing sub-Saharan countries to undertake independent research and analysis on development issues has been proposed.

64. However, progress is lacking in addressing member country representation on the executive boards and in devising a new formula for assigning votes. These issues are complex but critically important for efficient and equitable representation of member States. Although not necessary, it is widely accepted that changes in representation are likely to be addressed only in the context of an agreement to adjust Fund quotas and World Bank capital to allow them to continue to reflect historical relations on the relative size of individual countries in the global economic system. However, neither is currently on the international agenda. As part of continued efforts to build agreement on governance and representation in the Bretton Woods institutions, the Development Committee asked the Bank and the Fund to prepare a report on all aspects of the voice issue, to be discussed by the Committee at the 2004 annual meetings.

III. Conclusions

65. **Developing countries, supported by the international financial institutions, have taken a wide range of measures in recent years to improve information dissemination and strengthen financial regulation and supervision in order to contribute to a more stable international financial system. Nevertheless, they still remain highly vulnerable to global uncertainties and risks.**

66. **In addition to the actions taken by developing countries to lessen their susceptibility to shocks, the international community needs to promote policies and measures to reduce these countries' exposure to external developments. At present, this requires collective action to ensure an orderly unwinding of global imbalances, with multilateral surveillance focusing on global coherence as well as the domestic suitability of the policies of the largest economies. It is also necessary to ensure coherence between policies and measures intended to restore macroeconomic balance in the world economy and those intended to foster long-term growth and development in the developing countries.**

67. **It is also important to continue exploring measures to better assist developing countries in reducing high volatility of their external payment positions and to make their debt structures less vulnerable to crisis. Here, there may be a need for more appropriate regulatory instruments that fully recognize the close connection between macroeconomic cycles and risk-taking by financial institutions. Also, the development of more variable and flexible debt instruments, as well as financial mechanisms and markets that would allow developing countries to borrow abroad in their own currencies, should be encouraged.**

68. **It is essential to continue work on crisis prevention and resolution. In this regard, there is a need for more effective and less burdensome and intrusive surveillance, backed by lending facilities offering emerging markets some form of contingent insurance that can be mobilized quickly and on a sufficiently large scale if a need arises. Also, despite the recent progress on providing**

greater predictability and order to the resolution of sovereign debt, the lack of multilateral sovereign debt workout mechanisms continues to be one of the major gaps in the international financial architecture.

69. **There is broad recognition that international financial governance structures have to evolve in order to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting. However, the political will to comprehensively address this extremely important issue is still lacking. The international community should continue the search for acceptable political solutions that can point the way towards a breakthrough in this area.**

Notes

[1] The net financial transfer statistic adds together receipts of foreign investment income and financial inflows from abroad minus payments of foreign investment income and financial outflows, including increases in foreign reserve holdings. The net financial transfer of a country is thus the financial counterpart to the balance of trade in goods and services. A trade surplus is generated when the total value of domestic production exceeds domestic consumption and investment, with the excess invested abroad instead of being used domestically and vice versa for a trade deficit.

[2] World Bank, *Global Development Finance 2004*, vol. 1 (Washington, D.C., 2004), table B.41.

[3] United Nations Conference on Trade and Development, *Trade and Development Report 2004* (United Nations publication, Sales No. E.04.II.D.29), chap. II.

[4] IMF, *World Economic Outlook* (Washington, D.C., April 2004), table 2.1.

[5] Remarks by the Managing Director of IMF at the Third Regional Conference on Central America, San Pedro Sula, Honduras, 9 July 2004 (www.imf.org).

[6] IMF, "Assessing sustainability" (Washington, D.C., 28 May 2002).

[7] See Mark Allen, Christoph Rosenberg, Christian Keller, Brad Setser and Nouriel Roubini, "A balance sheet approach to financial crisis", IMF document WP/02/210, and "Integrating the balance sheet approach into fund operations", IMF, 23 February 2004 (http://www.imf.org/external/np/pdr/bal/2004/eng/022304.htm).

[8] See the joint ministerial statement of the ASEAN+3 finance ministers meeting, 15 May 2004, Jeju, Republic of Korea (www.aseansec.org).

[9] The list of non-cooperative countries and territories still includes Cook Islands, Guatemala, Indonesia, Myanmar, Nauru and the Philippines.

[10] Basel Committee Publications No. 107, June 2004 (www.bis.org/publ/bcbs107.htm).

[11] For a discussion of issues related to the implementation of the New Accord in developing countries, see "Guidance for Fund staff", IMF staff note on Basel II, 23 April 2004 (www.imf.org).

[12] Australia, China, Hong Kong Special Administrative Region of China, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Republic of Korea, Singapore and Thailand.

[13] Trade finance spreads averaged 28 basis points lower than spreads on other bank loans over 1996-2002 for a sample of countries with data on comparable transactions; see World Bank, *Global Development Finance 2004*.

[14] In 1980, in contrast, 16 debtors accounted for 70 per cent of credit outstanding; see report of the Acting Managing Director to the International Monetary and Financial Committee (IMFC) on the IMF policy agenda, 19 April 2004 (www.imf.org).

[15] Guillermo Nielsen, "An update on Argentina", Latin American Investor Conference, Merrill Lynch, 27 March 2004 (www.emta.org).

[16] For more details on sovereign debt-restructuring mechanisms, see A/59/219.

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International financial system and development

Report of the Secretary-General

Corrigendum

Paragraph 17

The paragraph should read as follows:

17. Nonetheless, considerable work remains to be done on crisis anticipation and prevention. Since developing countries are the only current borrowers from the Fund, surveillance may concentrate on these countries, while insufficient attention may be given to the policies of the major developed countries that have a greater impact on global conditions. Strengthening the impact of surveillance on developed economy policies will probably continue to be one of the major challenges of efforts to further improve the overall surveillance framework.

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* A/59/150.

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External debt crisis and development

Report of the Secretary-General**

Summary

The present report, submitted in compliance with General Assembly resolution 58/203 of 23 December 2003, complements the report of the Secretary-General on the follow-up to and implementation of the outcome of the International Conference on Financing for Development (A/59/270). It analyses the evolution of debt indicators of developing countries and countries with economies in transition in the context of recent developments in international trade and payments and in international capital markets. It provides an assessment of official debt relief under the Heavily Indebted Poor Countries Initiative and debt restructuring at the Paris Club, and discusses aspects of debt management in developing countries and developments with regard to internationally agreed mechanisms for solving problems related to sovereign debt to private creditors.

* A/59/150.

** The late submission of this report has allowed the elimination of duplication with other reports prepared in the United Nations system.

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I. Introduction

1. The General Assembly, in its resolution 58/203 of 23 December 2003, requested the Secretary-General to submit a report to the Assembly at its fifty-ninth session on the implementation of the resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries, inter alia, those resulting from global financial instability. In compliance with that request, the present report examines recent developments in the external debt and debt service situation of developing countries and countries with economies in transition and discusses measures to resolve the debt problems of developing countries. It concludes with a consideration of policy recommendations.

II. Recent trends in international debt indicators

2. The total external debt of developing countries and countries with economies in transition increased by around $95 billion, or 4 per cent, in 2003. The rate of increase of short-term debt, concentrated in Eastern Europe and Central Asia, East Asia and the Pacific, and Latin America and the Caribbean, was considerably faster (11.6 per cent) than that of long-term debt (2.3 per cent). While long-term public and publicly guaranteed debt increased in all regions, there was also a rise in private debt in sub-Saharan Africa and Eastern Europe and Central Asia, as a result of which these regions saw the fastest increase in total long-term debt (see annex).

3. As in 2002, the increase in export revenues outpaced the increase in total debt stocks, producing improvements in traditional debt indicators. The debt-to-exports ratio for all countries taken together fell by more than 13 percentage points, to under the 100 per cent threshold, and the debt-service-to-exports ratio fell to 15.0 per cent from 17.8 per cent, due also to the impact of the continued fall in international interest rates. Export growth also contributed to a fall in the ratio of short-term debt to foreign exchange reserves as it allowed a substantial build-up of reserves in a number of emerging market economies that also received net private capital flows over and above their needs for current-account financing.

4. Despite these generally positive developments, the ratio of total debt to gross national income continued to worsen in Latin America and the Caribbean and North Africa and the Middle East, where income growth accelerated at a slower pace than in other regions. Moreover, there has been a substantial rise in arrears in Latin America owing to still unsettled problems with the restructuring of Argentine debt. Countries in sub-Saharan Africa and East Asia and the Pacific also added to their arrears (see annex).

5. It should be noted that lending by international banks to emerging market economies has been shifting increasingly to local currency loans by their foreign branches, representing claims that are not recorded as cross-border liabilities. For 2003, such liabilities are estimated to amount to more than one third of total foreign bank claims on developing economies.[1]

III. Official debt relief and official development assistance

A. Progress under the Heavily Indebted Poor Countries (HIPC) Initiative

6. With the addition of Ethiopia, Ghana, Guyana, Nicaragua, the Niger and Senegal in 2004, 14 countries have reached their completion point, qualifying them for the full amount of debt relief possible under the Heavily Indebted Poor Countries (HIPC) Initiative. Another 13 countries have reached the decision point, at which they qualify for interim relief. The implementation of the Initiative thus continues to progress slowly, the main reason being the compliance of eligible countries with the conditions attached to debt relief. Reconciling the objectives of achieving and maintaining debt sustainability, promoting long-term growth and reducing poverty is particularly difficult since, in the context of implementing poverty reduction strategy papers, priority has to be given to spending in social sectors, mostly for education and health.[2] While there can be no doubt about the need to increase expenditure for these purposes, sustained poverty reduction and debt sustainability also require increased domestic investment in infrastructure and production capacity to raise economic growth and employment.[3]

7. Debt sustainability is also affected by vulnerability to external shocks. A number of heavily indebted poor countries have suffered from shocks due to price collapses in principal export sectors, drought and other natural disasters, and civil conflict in neighbouring countries. These have led to unsustainable debt levels during the interim period or after the completion point. Moreover, of the 11 countries that have not yet reached the decision point, 8 are either conflict-affected or post-conflict countries, and all but two are African. These countries have accumulated large and protracted arrears vis-à-vis the international financial institutions, in some cases since the mid-1980s.

8. The HIPC Initiative was conceived on the basis that the debt relief provided would be a net addition to the total volume of official development assistance (ODA). This additionality is necessary to simultaneously achieve the Initiative's multiple objectives. However, since the introduction of the original HIPC scheme in 1995, there has been a sharp fall in total net transfers of ODA compared to previous trends, and levels have not recovered despite a rise in bilateral aid flows after 2001.[4] It is notable that bilateral loans to heavily indebted poor countries have been increasingly replaced by grants. However, while such grants rose by 31 per cent between 2000 and 2002, this was almost entirely accounted for by a $2.032 million increase in debt forgiveness.[5] Indeed, bilateral ODA flows to heavily indebted poor countries after deduction of debt forgiveness have been stagnant since 1997, and food aid and emergency aid have increased at the expense of project-related grants, which have the largest potential impact on long-term growth.

9. Recent commitments by some non-HIPC developing Governments, notably India and the Libyan Arab Jamahiriya, to provide debt relief to heavily indebted poor countries has increased overall creditor participation but, for 13 of the 27 countries that so far have qualified for debt relief under the Initiative, it is still less than 90 per cent and for 5 of them less than 85 per cent,[6] owing in part to limited participation by commercial creditors and in part to financial constraints of low-income creditor countries, including other heavily indebted poor countries.[7] While the debt reduction facility of the International Development Association can provide

resources to reduce commercial debt, its remaining possibilities are limited. Moreover, commercial creditors may refuse to participate in buy-back operations and launch litigation proceedings, as has happened in the case of at least nine heavily indebted poor countries. Regarding measures to solve the problem of creditor participation, it has been suggested to establish a legal technical assistance facility to help such countries to discourage or deal with litigation, and to create a separate trust fund for clearing debts owed by countries that have themselves received debt cancellation from the Paris Club.[8]

10. Some of these concerns were echoed by the HIPC Ministerial Network at its ninth meeting, held in Dubai, United Arab Emirates, in September 2003.[9] The Ministers noted that the International Monetary Fund (IMF) macroeconomic frameworks and poverty reduction strategy papers remained insufficiently targeted on growth and the Millennium Development Goals, and that their excessive focus on reducing inflation meant that several countries had to reduce growth targets and anti-poverty spending even when long-term grants to fund budget deficits were available. They suggested that additional resources were necessary for heavily indebted poor countries to conduct poverty and social impact analyses of macroeconomic frameworks. Moreover, interest rate and exchange rate changes that have an impact on the calculation of the net present value of the debt overhang, as well as on growth and investment, should also be considered as external shocks and be taken into account in decisions on topping up debt relief at the completion point. The Ministers further urged that future IMF debt sustainability assessments should analyse domestic and private external debt in addition to that of the public sector, and that donors should give increased support to monitoring and reducing those debts.

11. The programme of action adopted at the launching of the HIPC Initiative in 1996 included a sunset clause to prevent the Initiative from becoming a permanent facility. Following three two-year extensions for the implementation of the Initiative in 1998, 2000 and 2002, the sunset clause will take effect at the end of 2004, and it is a challenge to bring the remaining 11 countries[10] to their decision point. At the summit meeting of the Group of Eight held in early June 2004, the commitment to fully implementing the HIPC Initiative and to supporting debt sustainability in the poorest countries through debt relief and grant financing was reiterated.[11] To that end, the boards of the World Bank and IMF are actively discussing the question of an extension of the Initiative.

12. To assist HIPC countries facing the challenge of ensuring that their debt remains sustainable while mobilizing the external resources needed to meet the Millennium Development Goals, the boards of the Bank and Fund recently discussed a proposed new framework for assessing debt sustainability in low-income countries.[12] The proposed new framework would involve an analysis of actual and projected external and public debt-burden indicators under a baseline scenario and in the face of plausible shocks, and be indicative of country-specific debt-burden thresholds for public and publicly guaranteed external debt. Creditors would need to consider more carefully their current lending policies, the need for low-income countries for additional resources to achieve the Millennium Development Goals. They may also wish to develop mechanisms to ease the impact of unforeseen, exogenous shocks. The modalities of implementing the proposed framework need to be clarified before it can become fully operational.

B. Debt restructuring at the Paris Club

13. As in previous years, the implementation of the enhanced HIPC Initiative was at the centre of Paris Club activities.[13] Six of the nine countries which concluded new agreements with the Paris Club between July 2003 and the end of June 2004 were heavily indebted poor countries. In some cases, non-Paris Club creditors joined the negotiations, such as Brazil in the case of Senegal and Gabon, Trinidad and Tobago in the case of Guyana, and Israel in the case of Nicaragua. The five countries that reached their completion point in 2004 obtained a reduction of their debt stocks as the share of the Paris Club in the total relief under the HIPC Initiative, and in all cases additional bilateral commitments were made by creditors to further bring down the debt burdens.

14. Honduras, which had reached the decision point under the HIPC Initiative in July 2000, obtained a debt restructuring under Cologne terms,[14] with about 10 per cent of its outstanding debt to Paris Club members being cancelled as interim relief and another 15 per cent being rescheduled. Burundi, a post-conflict HIPC-eligible country that has not yet reached the decision point, obtained debt rescheduling under the Naples terms with a reduction of net present value debt service by 67 per cent during the consolidation period.[15]

15. Among the countries not considered under the HIPC Initiative, the Dominican Republic, Gabon and Kenya came to the Paris Club in the first half of 2004. Debt service rescheduling was agreed under the classic terms[16] for both the Dominican Republic and Gabon.[17] Kenya reached a lengthening of repayment periods under the Houston terms[18] for about 70 per cent of the debt it owed to Paris Club creditors.

16. Kenya was the first country evaluated under the new Evian approach, initiated to resolve the debt problems of non-HIPC countries with greater flexibility.[19] Indeed, the debt situation of a number of non-HIPC developing countries is a reason for continued concern. At least 15 low- and middle-income countries that are not eligible for debt relief under the HIPC Initiative had debt-to-export ratios during the period 2000-2002 that exceeded 150 per cent, that is, the ratio that is considered as sustainable under the Initiative.

17. The Evian approach makes a distinction between liquidity problems and medium- and long-term problems with debt sustainability, allowing debt to be treated in three stages. In the first stage, under an IMF programme, liquidity problems can be dealt with under existing arrangements for flow treatment, tailored to the debtor's financing requirements and allowing for a rescheduling of debt service over one to three years, as in the case of Kenya. The second stage, for cases where debtors have medium- to long-term problems of debt sustainability, allows possible partial debt stock cancellation based on IMF debt sustainability analysis. Debtors will be treated on a case-by-case basis, with the possibility to move forward cut-off dates, which for many countries refer to the early 1980s. In the third and final stage, a phased exit treatment can be provided over the period of a second IMF programme, taking into account the debtor's track record of economic policies and its payment record to Paris Club creditors.

IV. Debt management in developing countries and technical assistance

18. Concerns about debt management capacity in developing countries emerged with the debt crisis in the 1980s, when the United Nations Conference on Trade and Development (UNCTAD) and the Commonwealth Secretariat started to engage in technical assistance activities in this area. While the design of the original HIPC Initiative itself did not address capacity-building or technical assistance for debt management,[20] the launching of the Initiative led some donors to establish the HIPC Capacity-Building Programme in Debt Analysis.[21] In 2001, a set of guidelines for public debt management[22] was endorsed by the executive boards of IMF and the World Bank and gave rise to increased assistance from these institutions. At present, more than 100 countries benefit from international technical assistance in the area of debt management.

19. While the challenges differ across countries according to the stage of development of their domestic capital markets and their access to concessional finance or international capital markets, the main objective of debt management is to ensure that the government's financing needs are met at the lowest possible cost over the medium to long term. It also aims to ensure transparency and promote accountability. Since it is essential for governments to track debt-service obligations effectively so as to avoid costly penalties and make well-informed decisions about the amounts and terms of new borrowing, improvements in the monitoring of public and publicly guaranteed debt have been at the centre of efforts to strengthen the capacities of national debt-management agencies, whose effectiveness depends on a clear legal mandate, an appropriate disclosure policy, and stronger coordination of borrowing strategies with fiscal and monetary policies.

20. In many developing countries, especially low-income countries, the capacity to manage the maturity structure and currency composition of their debt still requires considerable improvement.[23] The linkages between budgetary and balance-of-payment considerations are being increasingly recognized, including in the context of the enhanced HIPC Initiative, and require an integrated asset-liability management. National borrowing and debt management strategies need to take into account the return on debt-financed investments, in terms of both future fiscal revenue and foreign exchange income, and the government's ability to hedge interest and exchange rate risk. Governments may be tempted to reduce interest costs by borrowing in foreign currency to finance domestic expenditure, incurring exchange rate risk. In addition, developing countries have been encouraged to develop domestic bond markets to raise funds through long-term fixed-interest securities denominated in local currency as an alternative to borrowing from abroad. While this may be a solution in some middle-income countries, there are serious structural constraints in many low-income countries, largely because of the limited depth and liquidity of their financial sectors, to reduce their reliance on external financing, in particular ODA.

21. Technical cooperation activities typically cover the provision of country-specific debt management software, and training and assistance in its use, for the creation and maintenance of complete and up-to-date debt statistics. Activities also include support in the development of appropriate institutional, administrative and human resource capacities for debt management, and assistance in debt analysis and the development of debt management strategies.

22. The possibility of creating a consultative group on external debt management[24] among donors, international and regional organizations and other providers of technical assistance in the area of debt management was raised at the Interregional Conference on Debt Management, held in Geneva in November 2003, which was organized by the UNCTAD Debt Management and Financial Analysis System (DMFAS) Programme. Subsequent to further consultations among UNCTAD, the World Bank, IMF and donors, it was proposed to hold an annual meeting of the consultative group in conjunction with other major events related to debt management issues, with the aim of facilitating cooperation and coordination among providers of technical assistance. The first such meeting is envisaged in connection with the next Interregional Debt Management Conference, to be held in June 2005.

V. Restructuring of sovereign debt to private creditors

23. In May 2003, Uruguay concluded a debt-swap operation, covering about $4 billion of external commercial debt and extending maturity without any reduction in principal or interest. During 2003 and the first half of 2004, two heavily indebted poor countries, Cameroon and the United Republic of Tanzania, completed debt buy-back operations supported by the IDA debt reduction facility and several developed country Governments.[25] Serbia and Montenegro reached an agreement on the restructuring of its debt with the London Club of commercial creditors, implying a more than $1.7 billion, or 62 per cent write-off.[26] By contrast, no solution has as yet been found for the restructuring of Argentine debt, indicating again the need for an appropriate international mechanism to deal with financial crises.

24. In the light of the experience of recent financial crises and disruptions in emerging market economies, several proposals to facilitate the restructuring of sovereign bond debt have been under discussion since 1998. However, the failure of proposals for the creation of a sovereign debt restructuring mechanism to generate consensus has shifted attention to collective action clauses and a code of conduct for private creditors and sovereign debtors.

25. During the latter part of 2003 and in early 2004, some emerging market borrowers, representing more than 75 per cent of the total value of bonds issued in that period, have included collective action clauses in their international sovereign bond issues under New York law. The inclusion of a collective action clause does not necessarily imply that it will always be invoked when debt restructuring becomes necessary. For example, Pakistan in 1999 restructured its international bonds without so invoking the clauses, preferring an offer for a voluntary exchange of outstanding bonds for new bonds under different terms, which was accepted by a majority of the bondholders. In mid-1999, Ecuador carried out a restructuring of its bond debt by inviting eight of the larger institutional holders of its bonds to join a consultative group which provided a formal communications mechanism. By contrast, in April 2000, Ukraine made use of the collective action clauses included in four of its international bonds, obtaining the agreement of 95 per cent of its bondholders; this operation implied a net gain for creditors relative to market value.[27]

26. Concerns that the inclusion of collective action clauses in bond issues might lead to an increase in the cost of borrowing for the issuer appear not to be warranted in the light of experience so far. A recent study shows that the inclusion of collective

action clauses in bond issues in the Euromarket did not influence secondary market yields as at early 2003.[28]

27. Currently, collective action clauses are only included in a part of new sovereign bond issues, but the full benefit insofar as debt restructuring can only be achieved when they are included in the entire stock of outstanding securities. This could take a substantial period of time unless the clauses are inserted in existing bonds, but there are major practical difficulties in such an approach. As a result, the International Monetary and Financial Committee of the Board of Governors of IMF and the Group of Seven have encouraged sovereign debtors and private creditors to continue their work on a voluntary code of conduct, which could provide a comprehensive non-statutory framework to address potential debt servicing problems while preserving to the largest extent possible contractual arrangements.[29] The Group of Twenty has established a technical group to prepare a draft code in cooperation with private sector representatives.[30] The intention of the code is to promote an early, voluntary dialogue between debtors and creditors on corrective policy and financial action to reduce the frequency and severity of crises, and to avoid disruptions and achieve more equitable burden-sharing in the process of crisis resolution. An early dialogue could also lead to a quick rehabilitation of debtors to restore market access.

VI. Conclusions

28. A further extension of the HIPC Initiative to allow all eligible countries to benefit would appear appropriate. The remaining HIPC-eligible countries are likely to require greater flexibility on the part of the international community, including an increased focus on clearing arrears prior to entering the Initiative, a larger reduction of debt ratios during the interim period and, in the case of post-conflict countries, increased disbursements for reconstruction and refugee displacement. The implementation of the Initiative could be enhanced by a further streamlining of conditionality, in particular the elimination of structural and microconditions that are not essential to growth and poverty alleviation, while poverty reduction strategy papers should be integrated into wider national development programmes that are focused on export diversification into the production of higher value-added products.

29. In the light of the emerging consensus that full implementation the HIPC Initiative will not remove the debt overhang in all beneficiary countries,[31] renewed efforts on the part of the international community will be required to help these countries to attain debt sustainability and the Millennium Development Goals. Since achieving and maintaining debt sustainability in the medium to long term also depends on the level and type of ODA provided in the future, there will be a need to increase grants to the poorest countries, in addition to those that are accounted for by debt forgiveness.

30. The need to link more closely debt policy with growth and development, to recognize the country-specific character of sustainability, to apply greater case-by-case flexibility in the setting and implementation of thresholds and to consider debt scenarios in the face of possible external shocks has been recognized in a joint proposal by the staff of IMF and the World Bank.[32] The proposal also recognizes that financial policies of donors that adequately reflect countries' risk of debt

distress would almost certainly require an increase in the overall concessionality of financing to low-income countries, including an increase in the volume of grants.[33]

31. Regarding debt sustainability analysis, a more conservative approach than in the past may be warranted. Considering debt to be sustainable as long as new finance is available for debt service payments runs the risk of contributing to the build-up of larger debt burdens in the future, while exposing the economies to sudden changes in market sentiment or in conditions in international capital markets, as has been the case in many of the recent financial crises. Increased attention should thus be given to the volatility of capital flows in national debt sustainability assessments.

32. Shifting attention from financial considerations to the interdependence between external financing and debt, on the one hand, and the performance of the real economy, on the other, would help to place the issue of debt sustainability in the context of longer-term development strategies. As is well documented, debt sustainability analysis based on traditional debt indicators has been subject to numerous methodological and forecasting problems, and experience with HIPC countries has shown that the growth assumptions tend to be overly optimistic. Moreover, these indicators do not capture a number of structural variables that bear on debt-servicing capacity. Such variables as the import content of exports, the structure of imports, the size of non-debt creating capital inflows, especially foreign direct investment (FDI) and ODA grants, and outflows of profit remittances have gained considerable importance as a result of changing patterns of external financing and emerging new international production structures. Policies related to real exchange rates can also have important implications for debt sustainability in certain countries, given their impact on the international competitiveness of domestic producers and the return on investments financed by external borrowing. The fundamental challenge remains to ensure that the borrowed funds are channelled to the most productive uses in order to generate fiscal revenue, and export supply capacity or import-substituting capacity, so as to avoid increasing dependence on new borrowing.

33. For debt financing to become an integral part of national development strategies, increased efforts should be made to strengthen the institutional linkages between debt management and decision-making with regard to the use of available external financial resources. The national public debt committees set up by several countries in the CFA franc Zone appear to be an important step in this direction.[34]

34. The dependence of many low-income countries on a small number of primary commodities makes them particularly vulnerable to external shocks, which, as experience with the HIPC Initiative has shown, can lead to unsustainable debt situations. The most comprehensive response to such shocks would be immediately disbursing grant contingency financing. Moreover, the efforts of developing countries to maintain debt sustainability would also be greatly facilitated by improved market access for their exports.

35. For the heavily indebted low- and middle-income countries that are not eligible for debt relief under the HIPC Initiative, a satisfactory solution still remains to be found. The new Evian approach of the Paris Club, which aims at introducing greater flexibility in addressing the debt problems of non-HIPC countries, may be helpful in this regard and its possibilities should be fully explored. Since, however, many of these countries also carry a sizeable debt owed to private creditors, efforts need to

be continued to find an internationally agreed mechanism which addresses this problem and which could also help to prevent financial crises in the future and lead to more equitable burden sharing between debtors and creditors in crisis situations. In the absence of a statutory mechanism modelled on national bankruptcy legislation in developed countries, the inclusion of collective action clauses in bond contracts can play a positive role in orderly debt workouts in the long run, but should be complemented by an internationally sanctioned framework for standstills to be used when needed.[35]

Notes

[1] M. Goldstein and P. Turner, *Controlling Currency Mismatches in Emerging Markets*, Institute for International Economics, Washington, D.C., April 2004, p. 28.

[2] It is estimated that, on average, 65 per cent of all resources released by HIPC debt relief until early 2003 has been devoted to the social sectors, compared to 7 per cent for infrastructure. See World Bank, Operations Evaluation Department, *Debt Relief for the Poorest: An OED Review of the HIPC Initiative*, Washington, D.C., 2003, p. 34.

[3] United Nations Conference on Trade and Development, *Trade and Development Report, 1997* (United Nations publication, Sales No. E.97.II.D.8), part two, chap. V.

[4] World Bank, Operations Evaluation Department, *Debt Relief for the Poorest ...*, pp. 47-50.

[5] Organization for Economic Cooperation and Development, Development Assistance Committee, International Development Statistics online, http://www.oecd.org.

[6] Debt Relief International/Development Finance International, *Strategies for Financing Development*, No. 19, second quarter 2004, p. 8.

[7] International Development Association and International Monetary Fund, "Enhanced HIPC Initiative — creditor participation issues" (IDA/R2003-0058), Washington, D.C., 11 April 2003.

[8] Debt Relief International/Development Finance International, *Strategies for Financing Development*, No. 18, first quarter 2004, p. 3.

[9] Debt Relief International/Development Finance International, *Strategies for Financing Development*, No. 17, third quarter 2003, pp. 2-3.

[10] Burundi, Central African Republic, Comoros, Côte d'Ivoire, Republic of Congo, Lao People's Democratic Republic, Liberia, Myanmar, Somalia, Sudan and Togo.

[11] "Debt sustainability for the poorest", 10 June 2004 (see http://www.g8usa.gov/releases.htm).

[12] World Bank and International Monetary Fund, Development Committee, "Note on debt sustainability" (DC2004-0004), Washington, D.C., 14 April 2004.

[13] For more details on Paris Club agreements and procedures, see http://www.clubdeparis.org.

[14] For a discussion of the features of the Cologne terms of debt treatment by the Paris Club, see *World Economic and Social Survey 1999* (United Nations publication, Sales No. E.II.C.1), pp. 39-40.

[15] For an assessment of the effects of the Naples terms on developing country debt, see "Impact of the Naples terms", in UNCTAD, *Trade and Development Report, 1995* (United Nations publication, Sales No. E.95.II.D.16), p. 51. For further discussion of the Naples terms of debt treatment, see *Trade and Development Report, 1996* (United Nations publication, Sales No. E.96.II.D.6) and *Trade and Development Report, 1997* (United Nations publication, Sales No. E.97.II.D.8).

[16] Classic terms are the standard terms applied to a debtor country which has an appropriate programme with the International Monetary Fund, showing the need for Paris Club debt relief.

[17] Progressive repayment of all credits over 12 years (Dominican Republic) or 14 years (Gabon).

[18] In September 1990, Paris Club creditors granted three enhancements to the classic terms for debt of the lower middle-income countries, which are known as "Houston terms" and can be implemented on a case-by-case basis: non-ODA repayment periods are lengthened to or beyond 15 years and ODA repayment periods are lengthened up to 20 years with a maximum of 10-years' grace; ODA credits are rescheduled at a concessional rate; and debt swaps can be conducted on a bilateral and voluntary basis. See http://www.clubdeparis.org.

[19] Kenya was assessed under the Evian approach but, as noted in paragraph 15, only received a flow rescheduling under Houston terms since its external debt was considered to be sustainable.

[20] World Bank, Operations Evaluation Department, *Debt Relief for the Poorest* ..., p. 25.

[21] The Programme is executed by Debt Relief International in collaboration with regional institutions, such as the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, Pôle-Dette, the West African Institute for Financial and Economic Management, and the Centre for Latin American Monetary Studies.

[22] World Bank and International Monetary Fund, *Guidelines for Public Debt Management*, Washington, D.C., 2003.

[23] _____, *Debt Sustainability in Low-Income Countries — Proposal for an Operational Framework and Policy Implications*, Washington, D.C., 3 February 2004.

[24] See paragraph 17 of General Assembly resolution 58/203.

[25] World Bank, *Global Development Finance 2004* (Washington, D.C., 2004), p. 65.

[26] Associated Press, 2 July 2004.

[27] International Monetary Fund, "International capital market developments — prospects and key policy issues" (Washington, D.C., September 2003), table 5.2.

[28] M. Gugiatti and A. Richards, "Do collective action clauses influence bond yields? New evidence from emerging markets", Reserve Bank of Australia, Research Discussion Paper (RDP-2003-02), March 2003.

[29] International Monetary Fund Press Release No. 04/84 (24 April 2004) and statement of the Group of Seven finance ministers and central bank governors, Boca Raton, Florida, United States of America, 7 February 2004 (see http://www.g7.utoronto.ca/finance).

[30] International Monetary Fund, "Progress report to the International Monetary and Financial Committee on crisis resolution", Washington, D.C., 20 April 2004.

[31] World Bank and International Monetary Fund, "Heavily Indebted Poor Countries (HIPC) Initiative — status of implementation", Washington, D.C., 23 September 2003.

[32] _____, *Debt Sustainability in Low-Income Countries* ...

[33] International Monetary Fund, "IMF discusses operational framework for debt sustainability in low-income countries", in Public Information Notice No. 04/34, 5 April 2004.

[34] Debt Relief International and Development Finance International, *Strategies for Financing Development*, No.19, second quarter 2004, p. 4.

[35] United Nations Conference on Trade and Development, *Trade and Development Report, 2001* (United Nations publication, Sales No. E.01.II.D.10), chap. VI.

Annex

External debt of developing countries and countries in transition

(Billions of United States dollars)

	1990	*2000*	*2001*	*2002*	*2003*
All developing countries					
Total debt stocks	1351.9	2305.0	2266.7	2338.8	2433.3
Long-term debt	1101.3	1923.2	1862.5	1916.6	1960.3
Public and publicly guaranteed	1041.2	1376.5	1323.6	1376.3	1427.5
Private non-guaranteed	60.1	546.7	538.9	540.3	532.8
Short-term debt	216.0	323.3	329.0	326.4	364.3
Arrears	112.5	96.1	97.1	102.6	121.4
Interest arrears	52.7	32.8	35.4	37.5	43.8
Principal arrears	59.8	63.4	61.7	65.1	77.6
Debt service paid	149.7	380.4	376.4	372.9	372.6
Gross national income	3960.9	5849.1	5933.8	6012.4	6541.2
International reserves	199.0	730.2	811.0	996.9	1266.8
Debt indicators (percentage)					
Debt service/exports of goods and services	18.6	19.4	19.4	17.8	15.0
Total debt/exports of goods and services	167.6	117.3	116.5	111.4	98.2
Debt service/GNI	3.8	6.5	6.3	6.2	5.7
Total debt/GNI	34.1	39.4	38.2	38.9	36.8
Short-term/reserves	108.5	44.3	40.6	32.7	28.8
Memo item:					
Total inward FDI stocks	274.4	1396.1	1578.6	1734.6	..
Total liabilities[a]	1626.3	3701.1	3845.4	4073.4	..
Total liabilities/GNI (percentage)	41.1	63.3	64.8	67.8	..
Total liabilities/XGS (percentage)[b]	201.6	188.4	197.7	193.9	..
Profit remittances on FDI	17.2	76.6	79.1	76.1	73.0
Profit remittances/XGS (percentage)[b]	2.1	3.9	4.1	3.6	3.4
Sub-Saharan Africa					
Total debt stocks	176.8	211.2	202.6	210.3	219.7
Long-term debt	149.6	171.4	164.6	174.2	183.8
Public and publicly guaranteed	144.4	160.0	152.1	161.7	167.7
Private non-guaranteed	5.3	11.4	12.5	12.5	16.1
Short-term debt	20.6	33.1	31.7	29.1	28.8
Arrears	27.2	40.0	41.3	38.4	39.5
Interest arrears	9.4	14.1	14.8	14.0	14.6
Principal arrears	17.8	25.8	26.5	24.4	24.9
Debt service paid	10.9	13.4	12.8	12.4	13.3

	1990	2000	2001	2002	2003
Gross national income	292.4	307.1	299.9	302.4	372.3
International reserves	15.4	36.8	37.0	37.8	38.6
Debt indicators (percentage)					
Debt service/exports of goods and services	13.4	11.0	11.0	10.6	9.8
Total debt/exports of goods and services	217.6	174.3	174.9	178.6	162.2
Debt service/GNI	3.7	4.4	4.3	4.1	3.6
Total debt/GNI	60.5	68.8	67.6	69.6	57.9
Short-term/reserves	134.0	89.9	85.6	76.9	74.6
***Memo item*:**					
Total inward FDI stocks	33.9	107.8	116.6	125.2	..
Total liabilities[a]	210.7	319.0	319.2	335.5	..
Total liabilities/GNI (percentage)	72.1	103.9	106.4	110.9	..
Total liabilities/XGS (percentage)[b]	259.4	263.2	275.6	284.9	..
Profit remittances on FDI	1.9	7.6	7.8	7.8	7.5
Profit remittances/XGS (percentage)[b]	2.4	6.3	6.7	6.6	6.0
Middle East and North Africa					
Total debt stocks	155.1	180.7	178.4	189.0	188.1
Long-term debt	120.6	140.9	139.0	148.9	148.5
Public and publicly guaranteed	119.1	134.3	132.4	142.4	143.1
Private non-guaranteed	1.5	6.5	6.6	6.5	5.3
Short-term debt	32.7	37.3	37.1	37.9	37.9
Arrears	11.1	13.7	14.4	15.4	15.4
Interest arrears	2.9	2.7	2.7	2.8	2.8
Principal arrears	8.2	11.1	11.7	12.5	12.6
Debt service paid	20.5	21.9	19.4	21.5	23.9
Gross national income	351.8	564.1	574.5	572.8	561.3
International reserves	30.6	72.4	79.7	96.3	112.3
Debt indicators (percentage)					
Debt service/exports of goods and services	14.5	10.1	9.3	9.6	9.6
Total debt/exports of goods and services	109.6	83.5	85.2	84.9	76.1
Debt service/GNI	5.8	3.9	3.4	3.7	4.2
Total debt/GNI	44.1	32.0	31.1	33.0	33.6
Short-term/reserves	106.8	51.5	46.5	39.4	33.7
***Memo item*:**					
Total inward FDI stocks	44.8	77.0	82.4	86.8	..
Total liabilities[a]	199.9	257.7	260.8	275.8	..
Total liabilities/GNI (percentage)	56.8	45.7	45.4	48.2	..
Total liabilities/XGS (percentage)[b]	141.3	119.1	124.6	123.8	..
Profit remittances on FDI	2.2	5.3	7.0	6.2	5.7
Profit remittances/XGS (percentage)[b]	1.6	2.4	3.4	2.8	3.2

	1990	2000	2001	2002	2003
Latin America and the Caribbean					
Total debt stocks	444.2	751.9	729.3	727.9	762.1
Long-term debt	352.5	639.7	615.9	613.9	626.0
Public and publicly guaranteed	327.4	394.9	374.9	385.0	402.6
Private non-guaranteed	25.0	244.8	241.0	229.0	223.3
Short-term debt	73.5	103.4	89.5	75.7	84.0
Arrears	50.0	5.6	3.1	16.9	35.6
Interest arrears	25.6	1.5	1.0	6.2	11.9
Principal arrears	24.5	4.1	2.0	10.7	23.8
Debt service paid	43.9	180.1	158.7	136.7	137.2
Gross national income	1053.8	1911.5	1847.7	1607.7	1654.5
International reserves	58.6	160.0	161.4	164.1	193.4
Debt indicators (percentage)					
Debt service/exports of goods and services	23.9	38.8	35.6	30.7	28.9
Total debt/exports of goods and services	241.2	162.2	163.8	163.7	160.6
Debt service/GNI	4.2	9.4	8.6	8.5	8.3
Total debt/GNI	42.2	39.3	39.5	45.3	46.1
Short-term/reserves	125.4	64.6	55.5	46.1	43.4
***Memo item*:**					
Total inward FDI stocks	99.9	516.3	599.1	642.8	..
Total liabilities[a]	544.2	1268.2	1328.4	1370.8	..
Total liabilities/GNI (percentage)	51.6	66.3	71.9	85.3	..
Total liabilities/XGS (percentage)[b]	295.5	273.5	298.3	308.3	..
Profit remittances on FDI	7.5	22.4	20.4	18.5	16.3
Profit remittances/XGS (percentage)[b]	4.1	4.8	4.6	4.2	3.9
East Asia and the Pacific					
Total debt stocks	234.1	497.3	501.3	497.4	514.7
Long-term debt	194.6	417.7	397.1	386.3	391.3
Public and publicly guaranteed	173.0	268.2	264.3	266.2	276.1
Private non-guaranteed	21.6	149.4	132.8	120.1	115.2
Short-term debt	37.4	63.2	90.8	99.5	112.1
Arrears	4.9	12.8	13.9	15.2	16.1
Interest arrears	1.9	5.3	6.4	7.3	8.2
Principal arrears	3.0	7.4	7.5	7.9	7.8
Debt service paid	31.2	72.9	77.1	86.3	73.5
Gross national income	655.4	1545.8	1622.4	1776.3	1891.9
International reserves	71.3	284.2	333.8	426.5	568.4
Debt indicators (percentage)					
Debt service/exports of goods and services	17.7	11.3	12.3	12.1	8.5
Total debt/exports of goods and services	133.0	77.4	79.7	69.6	59.6

	1990	2000	2001	2002	2003
Debt service/GNI	4.8	4.7	4.8	4.9	3.9
Total debt/GNI	35.7	32.2	30.9	28.0	26.3
Short-term/reserves	52.4	22.2	27.2	23.3	19.7
***Memo item*:**					
Total inward FDI stocks	88.2	519.8	571.7	629.9	..
Total liabilities[a]	322.3	1017.1	1073.0	1127.2	..
Total liabilities/GNI (percentage)	49.2	65.8	66.1	63.5	..
Total liabilities/XGS (percentage)[b]	183.1	158.3	170.5	157.6	..
Profit remittances on FDI	5.2	32.2	32.4	28.4	27.4
Profit remittances/XGS (percentage)[b]	2.9	5.0	5.2	4.0	3.6
South Asia					
Total debt stocks	124.4	159.9	156.3	168.3	171.3
Long-term debt	107.5	152.0	149.2	158.7	160.3
Public and publicly guaranteed	105.8	136.6	135.0	144.8	147.9
Private non-guaranteed	1.7	15.4	14.2	13.9	12.4
Short-term debt	12.3	6.0	4.9	7.2	8.4
Arrears	0.1	0.3	0.4	0.4	0.4
Interest arrears	0.0	0.1	0.1	0.1	0.1
Principal arrears	0.0	0.2	0.2	0.3	0.3
Debt service paid	11.3	15.4	13.9	17.5	21.4
Gross national income	394.5	588.2	607.2	636.8	757.8
International reserves	8.3	47.1	57.3	85.3	116.0
Debt indicators (percentage)					
Debt service/exports of goods and services	27.5	14.6	12.9	14.3	14.6
Total debt/exports of goods and services	303.0	151.0	145.0	136.8	116.7
Debt service/GNI	2.9	2.6	2.3	2.8	2.8
Total debt/GNI	31.5	27.2	25.7	26.4	22.8
Short-term/reserves	149.4	12.8	8.6	8.5	7.3
***Memo item*:**					
Total inward FDI stocks	4.5	29.4	31.7	36.2	..
Total liabilities[a]	128.9	189.4	188.0	204.6	..
Total liabilities/GNI (percentage)	32.7	32.2	31.0	32.1	..
Total liabilities/XGS (percentage)[b]	313.9	178.8	174.4	166.3	..
Profit remittances on FDI	0.1	2.6	3.4	3.2	3.1
Profit remittances/XGS (percentage)[b]	0.3	2.5	3.2	2.6	2.5
Europe and Central Asia					
Total debt stocks	217.2	503.9	498.9	545.8	577.4
Long-term debt	176.4	401.6	396.8	434.6	450.4
Public and publicly guaranteed	171.5	282.5	264.8	276.4	290.0
Private non-guaranteed	4.9	119.1	131.9	158.3	160.4

	1990	2000	2001	2002	2003
Short-term debt	39.5	80.4	75.0	77.0	93.2
Arrears	19.4	23.7	24.1	16.3	14.4
Interest arrears	13.0	9.0	10.3	7.0	6.2
Principal arrears	6.3	14.7	13.7	9.3	8.2
Debt service paid	31.9	76.7	94.6	98.5	103.3
Gross national income	1233.1	931.8	982.1	1118.1	1303.5
International reserves	..	129.7	141.7	186.8	238.1
Debt indicators (percentage)					
Debt service/exports of goods and services	0.0	18.5	21.7	20.7	17.1
Total debt/exports of goods and services	0.0	121.5	114.3	115.0	95.7
Debt service/GNI	2.6	8.2	9.6	8.8	7.9
Total debt/GNI	17.6	54.1	50.8	48.8	44.1
Short-term/reserves	..	62.0	52.9	41.2	39.1
Memo item:					
Total inward FDI stocks	3.1	145.8	177.1	213.6	..
Total liabilities[a]	220.3	649.8	676.0	759.5	..
Total liabilities/GNI (percentage)	17.9	69.7	68.8	67.9	..
Total liabilities/XGS (percentage)[b]	..	156.6	154.9	159.9	..
Profit remittances on FDI	0.2	6.4	8.0	12.0	13.0
Profit remittances/XGS (percentage)[b]	..	1.5	1.8	2.5	2.3

Source: World Bank, *Global Development Finance 2004*, online database; and United Nations Conference on Trade and Development *World Investment Report 2003* (United Nations publication, Sales No. E.03.II.D.8).

Note: Foreign direct investment (FDI)
Gross national income (GNI)
Exports of goods and services (XGS)
Data unavailable (..)

[a] Total liabilities is the sum of total debt stocks and inward FDI stocks.

[b] Exports of goods and services.

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Sustainable development

Implementation of Agenda 21, the Programme for the Further Implementation of Agenda 21 and the outcomes of the World Summit on Sustainable Development

Report of the Secretary-General**

Summary

The present report has been prepared pursuant to General Assembly resolution 58/218; it provides an update on actions taken by Governments, organizations and bodies of the United Nations system and major groups to ensure the effective implementation of and follow-up to the commitments and time-bound goals and targets in the area of sustainable development, including through partnerships for sustainable development.

The report shows that there is encouraging progress at all levels in pursuing sustainable development. At the intergovernmental level, the Commission on Sustainable Development at its first review session carried out an in-depth review of water, sanitation and human settlements, and enhanced the understanding of priority concerns by identifying key constraints and obstacles in implementation. Within the United Nations system, efforts to ensure a coordinated follow-up to the World Summit on Sustainable Development are bearing concrete results. At the regional level, there has been great support for a regional implementation track to complement global action. At the national level, the sharper focus on implementation established at the Summit is inspiring Governments to take renewed action in various areas, not least in water, sanitation and human settlements. Over 50 countries submitted national information on such action to the twelfth session of the Commission. The composite picture emerging from those updates points to a strong commitment to implementation.

* A/59/150.
** Submission of the present report was delayed in order to incorporate updated information.

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I. Background

1. In its resolution 58/218, the General Assembly reaffirmed the continuing need to ensure a balance between economic development, social development and environmental protection as interdependent and mutually reinforcing pillars of sustainable development. The Assembly reiterated that sustainable development is a key element of the overarching framework for United Nations activities, in particular for achieving the internationally agreed development goals, including those contained in the United Nations Millennium Declaration and the Plan of Implementation of the World Summit on Sustainable Development (Johannesburg Plan of Implementation). The Assembly called upon Governments, organizations and bodies of the United Nations system and relevant international and regional organizations, as well as major groups, to take action to ensure the effective implementation of the commitments, goals and time-bound targets, including through partnership initiatives.

2. In the same resolution the Assembly requested, inter alia, the Secretary-General to strengthen system-wide inter-agency cooperation and coordination in implementation; urged the regional commissions to contribute to the work of the Commission on Sustainable Development; and requested the Economic and Social Council to implement the provisions of the Johannesburg Plan of Implementation relevant to its mandate.

3. The present report has been prepared pursuant to Assembly resolution 58/218 to provide an update on progress in implementation. To avoid duplication, the report excludes information on activities that will be considered by the Assembly under other items, such as those related to the United Nations Environment Programme; the United Nations Human Settlements Programme; the United Nations Convention on Biological Diversity, the United Nations Framework Convention on Climate Change, and the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa; and matters relating to small island developing States. Separate reports under those items will be submitted to the Assembly.

II. Follow-up action taken at the intergovernmental level

4. Governments, United Nations organizations, regional institutions, and major groups have been inspired by the Plan of Implementation to intensify efforts to follow through with the commitments they collectively agreed upon at the Summit. The Commission has been gearing up for a critical role in that endeavour. As the high-level intergovernmental body within the United Nations on sustainable development, the Commission has taken the lead in advancing sustainable development goals and objectives. To align its work with the emerging focus on implementation, the Commission has undertaken significant reform measures in its new programme and method of work, resulting in important outcomes at its twelfth session, its first review and substantive session since the Summit.

A. Outcomes of the twelfth session of the Commission on Sustainable Development

5. Over 100 ministers with various portfolios, including finance and development cooperation, along with some 1,400 delegates and observers, attended the twelfth session of the Commission on Sustainable Development, which was held from 14 to 30 April 2004 in New York. Under the able chairmanship of Børge Brende (Norway), the Commission introduced innovations into its organization of work. It was a session characterized by a number of firsts: thematic reviews were conducted through interactive discussions, which followed some 50 short but focused expert presentations; major groups' participation was integrated throughout the session; and five regional discussions were organized, which added depth to the work of the Commission by bringing regional perspectives into the review.

6. Two other features of the session were partnership fairs and the learning centre, which for the first time became part of the official programme of a Commission session. By showcasing some 80 partnerships registered with the Commission and facilitating interactive discussions on common partnerships issues, the partnership fairs afforded a timely opportunity for reviewing progress, sharing experiences and networking among partners. The Learning Centre, featuring 18 three-hour capacity-building courses, provided practical, hands-on lessons on various aspects of implementation. Some courses, such as the ones on national strategies for sustainable development, on integrated water resource management and on Global Environment Facility project fund application procedures, attracted a large turnout, filling the conference room to capacity. Institutions offering courses included Harvard University, Columbia University, La Sapienza (University of Rome), Hokkaido University, the World Bank, the United Nations Development Programme (UNDP) and the Smithsonian Institute.

7. The review showed that a considerable number of countries are not on track with regard to reaching goal 7, targets 10 and 11, of the Millennium Development Goals, which concern halving the proportion of people without access to safe drinking water and basic sanitation by 2015 and improving the lives of at least 100 million slum-dwellers. In many countries, slums are growing at an alarming pace. The persistence of poverty continues to hinder efforts to achieve progress in providing basic services and the lack of financial resources, technology and capacity remains the major constraint for developing countries. Low levels of community participation and inadequate empowerment of women in resource management and governance have hampered efforts to mobilize local initiatives.

8. In reviewing country experiences, the Commission drew attention to important interlinkages among the Millennium Development Goals and the goals and targets of the Plan of Implementation. It emphasized that achieving the Millennium Development Goals and the goals and targets of the Plan of Implementation concerning water, sanitation and human settlements is crucial for achieving poverty reduction and the other goals and commitments contained in the Millennium Development Goals and the Plan of Implementation. The strategic role of sanitation was stressed, with many participants pointing out that sanitation had not received as much attention as water and that neither of them had had much prominence in existing poverty reduction strategy papers.

9. The challenge of financing was addressed both in the thematic reviews and at a political level during the high-level segment. There was general agreement that current levels of financing were far from adequate and that development partners should, in the spirit of mutual accountability, meet the commitments of the Monterrey Consensus of the International Conference on Financing for Development and target an increased amount of funding to meet water, sanitation and human settlements commitments. Many delegations highlighted the need for exploring multiple avenues of financial resource mobilization, including partial loan guarantees, special facilities, revolving funds and microcredit schemes. Official development assistance should be used to support financing programmes targeted at the poor and to catalyse other financial resources to achieve a multiplier effect on domestic resource mobilization. Debt swaps for sustainable development could be used to address specific funding needs.

10. The Commission recognized that integrated water resources management provides a holistic framework for water sector reforms and for balancing water use among competing purposes, including sanitation and ecosystem services. However, it noted with concern significant delays and the likelihood that many countries would not meet the 2005 deadline for preparing integrated water resources management and water efficiency plans.

11. Regarding shelter, the Commission noted that action in improving the livelihood of urban slum-dwellers must be combined with policies to support sustainable development in rural areas in order to slow down rural to urban migration. It was further pointed out that local economies need to be stimulated and supported to enable vibrant informal businesses to develop into formal companies with reduced transaction costs and greater employment opportunities.

12. The outcomes of the review are contained in the Chairman's summary provided in chapter II of the report.[1] Part I of the summary provides a review of obstacles and constraints and lessons learned; part II summarizes discussions held during the high-level segment, including a section entitled "Responding to challenges: the way forward". Together, the two parts of the summary provide an important input for policy discussion and commitment to action for the thirteenth session of the Commission, which will be a policy session.

B. Economic and Social Council

13. The Plan of Implementation called on the Economic and Social Council to, inter alia, increase its role in overseeing system-wide coordination and the balanced integration of economic, environmental and social aspects of United Nations policies and programmes aimed at promoting sustainable development; organize periodic consideration of sustainable development themes in regard to the implementation of Agenda 21, including the means of implementation; and make full use of its high-level, coordination, operational and general segments to effectively take into account all relevant aspects of the work of the United Nations on sustainable development.

14. At the high-level segment of its substantive session of 2004, the Economic and Social Council considered resource mobilization and enabling environments for poverty eradication in the least developed countries. In the resulting ministerial declaration, the Council highlighted critical elements of sustainable development in

the least developed countries and called for integrating reconstruction and recovery into the sustainable development of the least developed countries emerging from conflict situations.

15. The Council also considered its role in the follow-up to the Summit with regard to the integrated and coordinated implementation of the outcomes of major United Nations conferences and summits. The Council considered a recommendation contained in the report of the Secretary-General (E/2004/71) and discussed the option of devoting one of its coordination segments to sustainable development issues in the United Nations system.[2]

III. Inter-agency cooperation and coordination

16. Since the Summit, organizations and bodies of the United Nations system have stepped up their collaboration in helping member States to meet the Millennium Development Goals and the Plan of Implementation goals and targets, building upon, in many instances, existing mechanisms. As summarized in its annual overview report to the Economic and Social Council (E/2004/67), the United Nations System Chief Executives Board for Coordination (CEB) has taken the lead in coordinating system-wide follow-up activities. The deliberations of CEB have focused on the identification of challenges facing the United Nations system in implementation, establishing guidelines for promoting coherent responses at the operational level and developing inter-agency mechanisms to replace or redesign the former task manager system in key areas of the follow-up to the Summit.

17. CEB highlighted a number of broad principles to guide the elaboration of inter-agency collaborative arrangements, including focusing on implementation at all levels (global, regional and national); pursuing the follow-up to the Summit within the overall context of summit/conference follow-up processes; and gearing inter-agency work with a view to maximizing support for the two-year implementation cycles adopted by the Commission.

18. In the light of those principles, CEB took steps through its High-Level Committee on Programmes to establish or strengthen inter-agency collaborative arrangements in the key areas of freshwater, water and sanitation, energy, oceans and coastal areas, and consumption and production patterns. Specific actions taken included the following:

(a) Confirming UN-Water as the inter-agency mechanism for the implementation of the Plan of Implementation water-related provisions and the Millennium Development Goals concerning freshwater. The terms of reference and modalities of work of UN-Water cover the elements of a detailed inter-agency plan for addressing water as well as sanitation issues, and include mechanisms for interacting with non-United Nations system stakeholders;

(b) Strengthening inter-agency support for the International Strategy for Disaster Reduction, including its related programmes for mitigating the effects of extreme water-related events;

(c) Setting up, in follow-up to the Plan of Implementation and Assembly resolution 57/141, an inter-agency mechanism to ensure effective information sharing and enhance coherence in the policies and wide spectrum of activities in the United Nations system relating to oceans and coastal areas;

(d) CEB endorsement of the 10-year framework of programmes on changing unsustainable patterns of consumption and production being developed in the context of the Marrakesh Process as the basis for inter-agency collaboration;

(e) Setting up a new system-wide collaborative mechanism to address the energy related aspects of the Plan of Implementation.

19. At its twelfth session, the Commission also reviewed inter-agency mechanisms in the context of the programme of work decisions made at its eleventh session. Delegates agreed on the importance of collective and cooperative work among United Nations agencies at the global, regional, subregional, and field levels, based on their mandates and comparative advantages. Such cooperation should help to avoid inter-agency duplication while ensuring synergies and complementarities, and enhancing capacity-building in developing countries. Delegates further noted that modalities of involving non-United Nations actors needed to be carefully worked out.

20. In addition, a number of delegates noted the importance of having inter-agency work on sustainable development derive from, and closely follow, the intergovernmental mandates reflected in the Plan of Implementation. The Plan of Implementation clearly identified areas in which inter-agency cooperation and coordination were needed. In the future, it would be important to report on inter-agency activities in the areas under review by the Commission.

IV. Regional activities

21. An important feature of the Summit was its emphasis on regional implementation, as reflected in the Plan of Implementation, three chapters of which are devoted to regional initiatives. Regional and subregional cooperation enables countries in a region or subregion, especially small countries, to pool together limited resources to strengthen their capacity for dealing with shared challenges in sustainable development.

22. The past two years have seen further collaboration involving the regional commissions, regional development banks and other regional institutions. The regional commissions, with the assistance of the secretariat of the Commission on Sustainable Development, organized regional meetings and ad hoc sessions on water, sanitation and human settlements as contributions to the twelfth session of the Commission.

23. The African regional meeting was held in Addis Ababa in December 2003, within the context of the Pan-African Conference on Implementation and Partnership on Water. The meeting identified constraints, opportunities and challenges facing the African region in water, sanitation and human settlements and brought into sharp focus the water and sanitation crisis in Africa, as well as the challenge of rapid urbanization.

24. Another initiative in the region was the first African expert meeting on sustainable consumption and production, held in Casablanca, Morocco, in May 2004, in the context of the 10-year framework of programmes on sustainable consumption and production. Participants in the meeting included experts from Governments, national cleaner production centres, academia, civil society, the private sector and international organizations. The meeting adopted a statement

requesting the African Ministerial Conference on the Environment to include sustainable consumption and production in its programme of work and to include initiatives that promote sustainable consumption and production in the programme of work of the New Partnership for Africa's Development.

25. The regional meeting for Asia and the Pacific was held in Bangkok in October 2003, in association with a regional workshop on national sustainable development strategies, which was sponsored by the Department of Economic and Social Affairs of the United Nations Secretariat. The meeting identified major achievements and challenges facing the region with regard to implementation, as well as lessons learned. It also examined existing partnerships in water, sanitation and human settlements in the region.

26. The regional forum on sustainable development within the Economic Commission for Europe region, held in Geneva in January 2004, assessed the regional situation with respect to water, sanitation, human settlements and related cross-cutting issues. The forum assessed the obstacles and challenges with respect to the great disparity in the region and identified a number of examples of good practices, which were issued in an annex to a document of the Economic Commission for Europe (ECE/AC.25/2004/2).

27. Three meetings were held in the Latin America and the Caribbean region in preparation for the twelfth session of the Commission: (a) regional forum of ministers of housing and urban development (La Paz, 5-7 November 2003); (b) an international seminar on the outcomes of the Summit (Santiago, 17-18 November 2003); and (c) the fourteenth meeting of the Forum of Ministers of the Environment (Panama City, 20-25 November 2003). The three meetings focused on the achievements, challenges and lessons learned in the region in the respective areas of water, sanitation and human settlements, taking into account cross-cutting issues.

28. The Latin America and the Caribbean region took another significant step forward at the thirtieth session of the Economic Commission for Latin America and the Caribbean (ECLAC), held in July 2004 in San Juan, Puerto Rico. Delegates approved the creation of a regional preparatory intergovernmental forum, as part of ECLAC activities, to monitor decisions made at the Summit.

29. In the West Asia region, the fourth session of the Joint Committee on Environment and Development in the Arab World, held in Cairo in October 2003, focused on the themes of water, sanitation and human settlements as well as governance for sustainable development. The session adopted a number of resolutions aimed at implementation of the outcomes of the Summit that were subsequently submitted to the Council of Arab Ministers Responsible for the Environment at its meeting in December 2003.

V. Country initiatives

30. Following up the commitments made at the Summit will be the yardstick of the success or failure of the Summit. Two years after the Summit was held, information gathered from a considerable number of countries suggests that Governments are taking action in various areas to accelerate progress in implementation.

31. In many instances, such action has focused on national policies, strategies and legislation. Morocco, for example, is launching a new "city without slums" strategy

in 2004. Bulgaria amended its Law on Territorial Development in December 2003, by which the State territory is considered a national treasure and its development is required to ensure sustainable development and favourable living, labour and recreational conditions for the population. Australia has implemented, and is continuing to implement, a range of freshwater-related strategies, including the 2003 Council of Australian Governments national water initiative, which updated the 1994 water reform framework. The United Kingdom has published its Water Act 2003, which has legislated changes to enable the more sustainable management of water resources. Belgium is preparing its second federal plan on sustainable development 2004-2008, which will be more focused on the themes of the European Union sustainable development strategy.

32. In the follow-up to the Summit, some Governments also reoriented the thrust of their national development policy. The Government of China, for example, has put forward a new vision of development that is centred on sustainable development. The new vision calls for coordinated development between urban and rural areas, between different parts of the country, between economy and society, between man and nature, and between domestic development and foreign trade and investment. The objective is to build up national capacity for sustainable development and improve living standards and environmental quality.

33. Responding to the call of the Plan of Implementation to take immediate steps in the formulation and elaboration of national strategies for sustainable development and begin their implementation by 2005, the Government of India has initiated the process of preparing a national sustainable development strategy. The draft strategy will go through an iterative process of political, technical and stakeholder consultations. India is of the view that the national strategies process should be continuous, involving the three elements of planning, action and feedback.

34. In September 2003, Peru held a workshop to discuss the elaboration of its national strategies for sustainable development. The workshop recommended that the formulation of the national strategies of Peru be implemented within one year.

35. The Government of Norway, having approved its national strategies for sustainable development in 2002, submitted a national plan of action in October 2003 as an integral part of the national budget to help advance progress in implementation of the national strategies. Slovenia is also preparing its own national strategy, entitled "Strategy of the development of Slovenia: the challenges of the future". In its strategy, Slovenia will consistently apply the sustainability principles of integration and will include economic development, social development and environmental protection. It will also represent a broad framework and provide guidance for sectoral strategies.

36. In the face of rapid urbanization, South Africa has undertaken historic efforts to provide secure shelter for its population. The last decade has seen 1.5 million houses constructed, with approximately 6 million citizens having received housing since 1994. In March 2003, the Government also published its first draft of the national water resources strategy to be finalized in March 2004. The Government has also put in place a national programme to deliver basic sanitation to 18 million people who currently do not have access to it.

37. Some donor Governments have provided targeted assistance to developing countries in the follow-up to the Summit. Belgium, for instance, provided funding to

support the development of the water supply and sanitation components of the poverty reduction strategy papers for African countries, utilizing the Belgian trust fund with the World Bank.

38. Japan has installed a low-cost, on-site, municipal wastewater treatment system (known as *johkasou*) in Indonesia. Moreover, Japan has transferred construction technology, operation and maintenance of *johkasous* to the local community and is developing a manual for wider distribution. This experience has demonstrated the importance of transferring the skills and systems necessary for proper operation and maintenance to local communities.

39. The United States of America, in collaboration with a number of developed and developing countries, convened the first Earth Observation Summit in Washington, D.C., on 31 July 2003, to promote the development of a comprehensive, coordinated, and sustained Earth observation system or systems with a view to understanding and addressing global environmental and economic challenges. As a result of the Earth Observation Summit, an ad hoc group on Earth observations was established to prepare a 10-year implementation plan for a coordinated, comprehensive, and sustained Earth observation system or systems.

40. The second Earth Observation Summit was held in Tokyo on 25 April 2004. At present, some 44 countries and 26 international organizations, as well as the European Commission, are working together on the 10-year implementation plan. It is hoped that the initiative, launched in response to the Summit, will change and improve how we perceive and understand planet Earth, thereby contributing to enhanced capacity for sustainable development everywhere.

41. United Nations organizations have assisted Governments in implementing country initiatives, including initiatives at the community level. For instance, UNDP has launched a community water initiative in Guatemala, Kenya, Mauritania, Sri Lanka and the United Republic of Tanzania to provide small grants in support of community activities in water supply, household sanitation and local watershed management. After its 2003/2004 pilot phase, the community water initiative will be evaluated and refined, based on experience in pilot countries and lessons learned. UNDP will seek additional funding to expand the initiative.

VI. Major groups

42. Major groups continue to play multiple roles in sustainable development at various levels. They utilize their expertise and knowledge to promote education in sustainable development, raise awareness of social, economic and environmental issues and monitor progress towards the implementation of sustainable development. They also contribute to implementation through participation in their own initiatives and in partnerships for sustainable development.

43. At its twelfth session, the Commission provided new and increased participatory mechanisms for engaging major groups in its work. Major groups representatives prepared discussion papers that were made available in the six official languages of the United Nations, interacted with experts and delegates throughout thematic discussions and joined ministers in a dedicated dialogue at the high-level segment of the session.

44. At the conclusion of the high-level segment, representatives of major groups pledged to continue to enhance partnerships and actions in civil society and to engage at all levels to implement Summit outcomes. They also undertook to complement efforts by Governments to strengthen the capacity of households, local communities, indigenous peoples, women, youth and other relevant groups to participate actively in implementing water, sanitation and human settlements programmes.

45. The twelfth session of the Commission marked a high point in the engagement of major groups in the work of the Commission. Nearly 700 major groups representatives attended the session, where they made a total of 86 interventions on water, sanitation and human settlements. Major groups especially welcomed the variety of opportunities provided to them whereby they could interact with experts and delegates in thematic discussions. They called upon other functional commissions to follow the inclusive approach of the Commission to their participation.

VII. Partnerships for sustainable development

46. Voluntary partnerships aimed at implementing sustainable development continue to complement action in implementation at various levels. As of June 2004, 291 partnerships had been registered with the secretariat of the Commission.

47. While the registered partnerships vary considerably in terms of size, scope and duration, there are certain common themes that resonate through all of them. Partnerships for sustainable development are collaborative initiatives focused on finding solutions. Most employ a bottom-up approach, using pilot projects to test their strategies, before replicating their models at national, subregional and regional levels. The outputs from partnerships vary considerably, ranging from direct technology transfer of specific solutions to the creation of networks.

48. Registered partnerships also vary considerably in geographic scope and duration. Geographic coverage ranges from initiatives focusing on specific regions to those mobilizing global campaigns. The projected duration of partnerships ranges from a two-year horizon to an open-ended time frame.

49. The provision of predictable and sustained resources, whether based on financial resources or non-financial contributions, is a key prerequisite for partnership implementation. Three fourths of the registered partnerships have reported that they have secured funding, while the remainder are awaiting contributions from donors.

50. Some registered partnerships are fully operational, while others are in the organizational phase. Based on the information reported to the Commission at its twelfth session, it appears that the organizational phase takes considerable time and requires considerable resources. Initial activities normally included finding partners, securing funding, defining coordination modalities, establishing a web site, conducting outreach activities and developing implementation strategies. It is anticipated that an increasing number of registered partnerships will be reporting progress towards implementation goals in the upcoming reporting cycles to the Commission.

51. At its twelfth session, the Commission also reviewed the progress in the implementation of partnership initiatives. While there was general support for partnerships for sustainable development, a number of delegates noted that funding for partnerships was coming mainly from Governments and emphasized the need for mobilizing new resources. The view was expressed that greater private sector involvement was needed. Some delegates made the observation that partnerships seem to have been donor-driven; the need for more demand-driven partnerships was thus underlined.

VIII. Conclusions and recommendations

52. The present report shows that there is encouraging progress in implementation at national, regional and international levels. Far more action is under way than can be described in the present report. National reports submitted by some 50 Governments to the Commission at its twelfth session paint, in broad strokes, a landscape of activities and initiatives. Regional implementation has also progressed, as can be seen in regional initiatives and regional meetings on sustainable development. CEB efforts to strengthen inter-agency collaborative mechanisms are encouraging system-wide implementation. Partnerships for sustainable development are beginning to demonstrate their potential as effective instruments for implementation. Major groups, including business and industry, are making increasing contributions to sustainable development. Their valuable roles as partners in implementation cannot be overemphasized.

53. The challenge ahead is to sustain that energy and galvanize further initiatives. At its twelfth session, the Commission identified the constraints and obstacles in implementation. The next step is to tackle the policy options and possible actions required to address those difficulties. Most importantly, the international community needs to transform the mutual accountability and the spirit of global partnership between developed and developing countries into concrete results.

54. To that end, it is recommended that the Assembly:

(a) Urge Governments to continue to implement Agenda 21, the Programme for the Further Implementation of Agenda 21 and the Johannesburg Plan of Implementation and provide, through streamlined procedures, national information to the Commission secretariat with a view to achieving a broader exchange of lessons learned and best practices;

(b) Call on Governments to continue providing support to the Commission, including through contributions to the Commission trust fund, with a view to enhancing support for regional implementation initiatives and major groups participation in the work of the Commission;

(c) Request CEB to monitor the operational efficiency and effectiveness of the new or redesigned collaborative mechanisms in the follow-up to the Summit, taking into account the review outcome of the twelfth session of the Commission;

(d) Call upon donor Governments and international financial institutions to target funding support to developing countries in the priority

areas identified during the twelfth session of the Commission, including integrated water resources management and water efficiency plans, as well as national strategies for sustainable development, taking into account the time-bound targets in the Plan of Implementation.

Notes

[1] *Official Records of the Economic and Social Council, 2004, Supplement No. 9* (E/2004/29).

[2] The Economic and Social Council decided to continue consultations on a multi-year work programme for the coordination segment, with a view to finalizing the programme before the next substantive session.

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Questions relating to information

Report of the Secretary-General

Summary

The present report, prepared in response to General Assembly resolution 58/101 B of 9 December 2003, reflects the activities of the Department of Public Information carried out from July 2003 to June 2004, and provides information on the implementation of the recommendations contained in the resolution.

As a result of the implementation of the Secretary-General's 2002 reform proposals, the Department carried out its work during the above-mentioned period guided by a new mission statement and with a new operating model and organizational structure. The activities of the Department are now organized within its four subprogrammes: strategic communications services; news services; library services; and outreach services. The report highlights the main activities undertaken by each of the subprogrammes and includes an overview of the continuing efforts of the Department to promote and refine a culture of evaluation and performance management.

The report concludes that, after a period of transition, the reformed and restructured Department now understands what is expected of it, is mastering the means to deliver on those expectations and has gained practical experience in their execution. It is ready to apply the lessons learned, as well as its new-found confidence, to further improve the products and services it offers. By reaffirming their support for the new direction the Department has taken, Member States can play a key role in bringing their United Nations closer to people around the world.

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I. Introduction

1. In its resolution 58/101 B of 9 December 2003, the General Assembly requested the Secretary-General to report to the Committee on Information at its twenty-sixth session, and to the General Assembly at its fifty-ninth session, on the activities of the Department of Public Information, and on the implementation of the recommendations contained in that resolution. Accordingly, the Department of Public Information introduced five reports and a note by the Secretary-General for consideration by the Committee on Information at its twenty-sixth session, held from 26 April to 7 May 2004 (A/AC.198/2004/2-7). The deliberations of the Committee on these reports are reflected in its report to the General Assembly.

2. The present report, which covers the period from July 2003 to June 2004, is prepared in response to the above-mentioned resolution and updates the information already provided.

II. Overview

3. As a result of the implementation of the reform proposals of the Secretary-General made in September 2002, contained in his report entitled "Strengthening of the United Nations: an agenda for further change" (A/57/387 and Corr.1), a comprehensive restructuring of the Department of Public Information has taken place. In continuing the reorientation, the focus of the Department has been defined by its new mission statement which is to help fulfil the substantive purposes of the United Nations by strategically communicating the activities and concerns of the Organization to achieve the greatest public impact. As part of its restructuring, the Department has a new operating model and a new organizational structure. The organizational structure, which is aligned with the Department's subprogrammes, comprises strategic communications services, news services, library services and outreach services. The details of these changes were provided in the report of the Secretary-General on the reorientation of United Nations activities in the field of public information (A/AC.198/2003/2).

4. Working within ever-dwindling resources, the Department has sought to maximize its efforts by making better use of the new information and communications technologies, especially the Internet. At the same time, the use of traditional means of communications, including radio, has been widened to address the needs of targeted audiences. Added emphasis has also been placed on greater coordination of communications activities between the Department of Public Information and the organizations of the United Nations family through the United Nations Communications Group. An integral part of these efforts has been the continuing promotion and refinement of a culture of evaluation and performance management.

III. Strategic communications services

A. Thematic communications campaigns

Economic and social development issues

5. Building international support for the most vulnerable countries remains a priority for the Department. During the period under review, the situation of the least developed countries was publicized by promoting the reports and discussions for the high-level segment of the 2004 session of the Economic and Social Council, held from 28 to 30 June 2004, which focused on this theme. The challenges faced by landlocked developing countries have been placed on the world's radar screen through the promotion of the Almaty Ministerial Conference, held on 28 to 29 August 2003, and of the signing of the Asian Highway Agreement in April 2004. To give renewed visibility to the vulnerabilities of small island developing States, the Department has been working on a promotional campaign leading up to the Mauritius International Meeting, now scheduled for January 2005. The Department also carried out a wide range of promotional activities in support of the International Year of Freshwater 2003. Media coverage of progress on the water target of the Millennium Development Goals appeared on a wide range of wire services reaching different regions, as well as in major outlets, such as the British Broadcasting Corporation (BBC) News (United Kingdom of Great Britain and Northern Ireland), *Aftenposten* (Norway), *The Star* (Malaysia), the *Independent Online* (South Africa) and *Jornal do Commercio do Rio de Janeiro* (Brazil).

6. Building on its extensive experience in organizing campaigns for major summits and issues, the Department is now strategizing, with the Millennium Campaign Office, a system-wide effort to promote and boost implementation of the Goals, leading up to the General Assembly high-level event in September 2005. This is a major priority for the Department. Current work is focused on agreeing on a common visual identity and slogan that all United Nations system partners can use or adapt in their promotional work.

World Summit on the Information Society

7. Following the successful promotion of the Geneva phase of the Summit, held from 10 to 12 December 2003, the Department has started preparations to publicize its second phase, to be held in Tunis from 16 to 18 November 2005. The United Nations information centre in Tunis covered the first preparatory meeting in Hammamet, Tunisia, from 24 to 26 June 2004, ensuring close contacts with the Tunisian media. The Department also worked closely with the United Nations Information and Communication Technology Task Force to publicize the first Global Forum on Internet Governance, held at United Nations Headquarters, on 25 and 26 March 2004, as an input to the World Summit on the Information Society process. The Forum generated at least 83 articles in English, French and Spanish, and was covered, among others, by *Mercury News*, *Los Angeles Times*, *USA Today*, *Miami Herald* and *Chicago Tribune*, EFE, Inter Press Service and Voice of America.

HIV/AIDS

8. The Department has become a major partner in coordinating the Global Media AIDS Initiative, which was launched in January 2004, when the Secretary-General

met with more than 20 heads of global media companies. The media leaders made a commitment to increase programming on AIDS issues. Working with the Joint United Nations Programme on HIV/AIDS (UNAIDS) and the Kaiser Family Foundation, the Department is facilitating several joint projects, including a feasibility study for the establishment of a copyright-free database and a "creative summit", to assist broadcasters in sharing knowledge and resources in the fight against AIDS. In addition, at the 2005 International Television Programme Market (MIP TV) in Cannes, there will be a special United Nations Day, on 12 April, to commemorate the sixtieth anniversary of the United Nations. The substantive focus will be on AIDS, as part of the Global Media AIDS Initiative.

Migration

9. Building on the successful experience with the 2003 World AIDS Day "media blitz", a new model for short-term, concentrated campaigns, the Department organized a similar mini-campaign on migration issues to promote a major policy statement by the Secretary-General to the European Parliament on 29 January 2004. It placed his related op-ed in one major newspaper in each European Union country, including *Corriere della Sera* (Italy), *Frankfurter Allgemeine* (Germany), and *I Kathimerini* (Greece). Through the combined efforts of several information officers at Headquarters and United Nations information centres, the op-ed ran in 43 countries in 66 different newspapers. The Secretary-General's statement was covered in some 52 outlets in 23 countries.

Needs of the African continent

10. A major focus of the Department's news-gathering and reporting activities continues to be the situation in Africa and its needs, including peacekeeping and conflict resolution. The Africa Section works fulltime in support of the United Nations global information campaign to promote the New Partnership for Africa's Development (NEPAD). The Department created opportunities for both the Economic Commission for Africa and the Office of the Special Adviser on Africa to address the media and to raise the profile of their work internationally. On the first anniversary of the adoption of NEPAD by the General Assembly, the Department publicized the General Assembly's review of progress made to implement the Partnership and the contribution made by the Office of the Special Adviser. In June 2004, the Department produced a television programme on HIV/AIDS in Nigeria, featuring the Special Adviser on Africa, for broadcast in Nigeria with the assistance of Nigeria's representative on the Global Media AIDS Initiative.

11. Reflecting the goals and spirit of NEPAD, in June 2004, the Department's magazines *Africa Recovery* and *Afrique relance* — major sources of information on Africa's economic development — were renamed *Africa Renewal* and *Afrique renouveau*, respectively. Since December 1999, the Department has been placing shorter versions of key articles prepared for the magazine in major African media. Three or four major articles written for *Africa Renewal* are regularly published by several newspapers and magazines, including South Africa's *Business Day*, in advance of their appearance in the United Nations magazine.

Human rights

12. During the past year, the Department continued to initiate and coordinate multimedia activities on the subject of human rights. To assist the network of United Nations information centres in their work to promote the tenth anniversary of the Rwanda genocide (7 April 2004), it provided detailed questions and answers on the main issues, a chronology of events and a short list of relevant quotes from the Secretary-General. A special media outreach campaign targeting the African media was undertaken in the days leading up to 7 April and a press packet was sent electronically to more than 100 African journalists and media organizations. Ceremonies and observances were organized by 36 United Nations information centres and services and by the Regional United Nations Information Centre in Brussels. The information centres in Dar es Salaam and Tokyo organized photo and poster exhibits. The Department also produced a press kit in English and French to publicize the work of the sixtieth session of the Commission on Human Rights, held from 15 March to 23 April 2004.

Decolonization

13. The Department's activities in the area of decolonization were marked by increased interdepartmental collaboration and the production of targeted information materials. An information officer from the United Nations information centre in Sydney covered the Pacific Regional Seminar on Decolonization, which was held in Madang, Papua New Guinea, in June 2004. A brochure entitled "Questions and answers on the United Nations and decolonization", issued in English, French and Spanish, informed the populations of the Non-Self-Governing Territories of the options available to them in exercising their right to self-determination.

Question of Palestine

14. The question of Palestine continued to remain a focus for the Department. The twelfth International Media Seminar on Peace in the Middle East was held in cooperation with the Ministry of Foreign Affairs of China, in Beijing, on 16 and 17 June 2004. It highlighted the role of civil society in promoting peace and justice in the Middle East, facilitated the dialogue between Israelis and Palestinians and provided nearly 100 journalists, diplomats and academics with an opportunity to broaden their views and perspectives on the issue. The annual training programme for Palestinian media practitioners, an initiative of the Department, now in its ninth year, continues to be a useful tool to improve the capacity of promising young Palestinian media professionals. Five Palestinian journalists participated in the 2003 training programme and 10 are due to participate in the 2004 programme, which will be held at United Nations Headquarters from 25 October to 12 December 2004.

United Nations Communications Group

15. The Department continued to strengthen system-wide coordination in the field of communications and public information through the United Nations Communications Group. The Group's third annual meeting, held at the United Nations Office at Nairobi on 24 and 25 June 2004, was attended by 36 member organizations and observer bodies. New collaborative projects agreed upon at the meeting included the standardization of guidelines for the accreditation of media representatives to United Nations meetings and special events and of the distribution

and use of United Nations photo material, and developing a common visual identity for the Millennium Development Goals Campaign. The Group's secretariat has also been asked to develop and administer an Internet-based United Nations system-wide calendar of media events. The calendar, which is scheduled to become operational by 1 October 2004, will unify all existing calendars of events and thus help to eliminate duplication and/or overlap of activities at Headquarters and in locations around the world.

B. Department of Public Information and United Nations peacekeeping

16. Guided by the priorities of the Department of Peacekeeping Operations, a major client department, the Department of Public Information has emphasized peacekeeping in Africa and the dramatic surge in demands for United Nations peacekeeping operations worldwide over the past year. This included conducting assessment missions to plan for the public information aspects of United Nations operations in Côte d'Ivoire, Haiti and Liberia, and composing budgets, staffing tables and operational concepts for the information components of missions in those countries, as well as in Burundi, Iraq and the Sudan. To help individual peacekeeping operations to communicate quickly and effectively with a wide range of audiences, a week-long training programme was organized in June 2004 with the Department of Peacekeeping Operations, in Brindisi, Italy, for 25 public information officers. The programme focused on how to deploy full public information components during a mission's initial phase.

17. Using the occasion of the International Day of United Nations Peacekeepers (29 May), the Department inspired and supported activities around the world initiated by United Nations information centres and peacekeeping operations. For example, the centre in Islamabad organized a media workshop with the Ministry of Foreign Affairs on United Nations peacekeeping, to which Pakistan is the major troop contributor. The United Nations Information Service in Vienna held a forum on "Challenges to United Nations peacekeeping: growing demand; decreasing resources". Several information centres placed specially prepared articles in major newspapers, including *Bangkok Post*, *An-Nahar* (Beirut), *Journal de Noti* (Lisbon), *Novye Izvestia* (Moscow) and *El Financiero* (Mexico City). The Regional United Nations Information Centre in Brussels held a round table on "Peacekeeping in restoring democracy". The BBC, in collaboration with the Department of Public Information, produced a series of web pages and radio reports on African peacekeeping. The Department's new brochure on peacekeeping, entitled "Meeting new challenges" was translated into the six official languages and posted on the United Nations web site.

18. The Department has placed special emphasis on promoting the Organization's work in countering terrorism. It has convened an interdepartmental/inter-agency group to prepare a system-wide communications strategy to coordinate with and complement the revitalized Counter-Terrorism Committee. In the field of disarmament, the Department has continued to work closely with the Department for Disarmament Affairs to promote disarmament-related issues on the United Nations agenda.

19. The Department continued to explain and promote the United Nations political and humanitarian roles in Iraq, as well as the actions of the Security Council preceding and following the war. The Department also had a central role in coordinating the Organization's public response to charges relating to the Oil-for-Food Programme. It prepared and disseminated information on the Programme, placed over two dozen responses to misinformation in the media and arranged interviews and background briefings for media and staff of key Member States.

C. United Nations information centres

20. In line with the Secretary-General's reform plans, the Department took the first step to rationalize the network of information centres by closing nine offices in Western Europe and establishing the Regional United Nations Information Centre in Brussels on 1 January 2004. This involved negotiations with the host Government with regard to premises and support for the Centre, logistics in connection with the office closures, the transfer or separation of staff and the recruitment of staff for the regional centre, a process that is now almost complete. The Centre moved from temporary premises to permanent office space in July 2004. The legacies of the nine centres, including contact lists, web sites, local language material and other tools were successfully transferred to the new regional centre, enabling it to continue to serve its audiences in Western Europe.

21. In his report to the Committee on Information on rationalization of the network of United Nations information centres (A/AC.198/2004/3), the Secretary-General outlined his proposals to extend the rationalization process to other regions. In line with the recommendations adopted by the Committee on 7 May 2004,[1] those proposals will be further refined in consultation with the Member States concerned.

22. The significant reduction in operational funds, as a result of the US$ 2 million cut in the budget for the current biennium, has severely limited the ability of United Nations information centres to maintain the level of outreach to the audiences in the countries served, as available resources were largely used to cover fixed expenses, such as rent, maintenance of premises and the United Nations Development Programme (UNDP) cost recovery. Given the lack of funding to support their core functions, centres have often been unable to sustain regular activities, such as the production of newsletters and other publications, travel to participate in activities outside the location of the office and other activities requiring the expenditure of funds.

23. The centres have continued to strengthen their partnerships with the United Nations country teams, making their expertise available when needed. During the period under review, centres have reported 170 instances of providing support to the country launches of major United Nations reports. In addition, information centre staff chair or co-chair more than 70 per cent of the theme groups on public information established by country teams.

24. In order to further strengthen its partnership with UNDP at the country level, the Department of Public Information and UNDP consult regularly at Headquarters. Resident coordinators are also briefed by the Department when they visit Headquarters. The Under-Secretary-General for Communications and Public Information and the Administrator of UNDP have discussed joint cooperation in the light of the rationalization process of the network of United Nations information

centres. The Department has also resumed its participation in the inter-agency Working Group on Common Premises and Services, in order to play an active role in decisions taken in the field, including those relating to security and access to centre premises.

25. Recognizing the role of the media as effective redisseminators of information to a wide audience, United Nations information centres continue to work intensively to brief media representatives and involve them in a dialogue on priority United Nations issues by organizing, for example, press conferences, briefings, interviews, as well as tours for and training of journalists.

26. In response to the Secretary-General's recommendation to strengthen the Organization's information outreach in the Arab world, the Department organized its first three-day workshop for the Middle East and Arab region in New York in September 2003, bringing together staff from 13 United Nations information centres. Representatives from the specialized agencies, funds and programmes, as well as from United Nations missions in the region, also attended the workshop. Participants formulated a strategic communications framework that was further developed into an action plan at a follow-up meeting co-organized with the Economic and Social Commission for Western Asia and held in Beirut in May 2004. Both meetings received substantial financial support from extrabudgetary sources.

IV. News services

A. Office of the Spokesman for the Secretary-General

27. The Office of the Spokesman for the Secretary-General conducts the daily noon briefing and keeps the press, delegations and the public informed, not only of the work of the Secretary-General, but also of developments throughout the United Nations system. The Organization's official position on matters in the news is conveyed by the Spokesman's Office through the daily briefings, official statements, interviews and background briefings. The Office announces and issues the Secretary-General's official statements and makes public, via the United Nations web site, the transcripts of all his remarks to the press and his daily appointments at United Nations Headquarters. When the Secretary-General travels, the Spokesman is responsible for the media aspects of the trip and writes the official public accounts of his travels. The highlights of the daily briefing are also posted and now archived on the web site in an easy-to-read bullet point format. The information from the noon briefing provides the basis for the items posted on the United Nations News Service web site, as well as for other outlets of the Department of Public Information.

28. During the reporting period (July 2003 to June 2004), the Spokesman held 246 press briefings and organized 19 press conferences given by the Secretary-General, 78 press briefings by Member States, 139 press conferences by senior officials and five background briefings. In addition, the Office coordinated 123 press encounters and 53 press interviews with the Secretary-General.

B. Traditional means of communications: radio, television and photo

29. The live radio project on the development of an international broadcasting capacity for the United Nations is now firmly established as one of the important traditional channels for strategically communicating the activities and concerns of the Organization to large audiences in all regions of the world. United Nations Radio produces daily news and current affairs programmes in the six official languages and Portuguese. In late 2002, a survey requested by Member States indicated that about 133 million persons listened to the daily broadcasts at least once a week. Since then, the Department has added 46 new partner broadcasters, raising the total number of partners to 160, with approximately another 75 million listeners. In the light of this proven successful and cost-effective global outreach, Member States approved the regular budget funding for this project for the biennium 2004-2005.

30. In addition to live programmes, United Nations Radio continues to produce weekly programmes in the following eight non-official languages: Bangla, French-Creole, Hindi, Indonesian, Kiswahili, Portuguese, Turkish and Urdu. The programmes are mailed or distributed via the Internet to several other partner stations. A new weekly English-language programme targeting Africa was launched in June and will be followed shortly by one in French. The Department continues to produce special programmes targeting the Asian region.

31. A new electronic multimedia production system has been introduced to streamline the work of radio and photo services, enabling more efficient digital delivery of the Department's radio programmes and photographs. This has improved the sound quality of the Department's radio broadcast programmes. The Department no longer processes photos, and prints far fewer than in the past and now has the capability to transmit photos to news agencies within minutes of an event.

32. The Department continued to provide coverage, through United Nations Television, of meetings, press conferences and special events at Headquarters. Produced in-house, this high-quality video material was distributed to broadcasters throughout the world through the major television news redisseminators, including the European Broadcasting Union, the Associated Press Television and Reuters. These television feeds were also available in live webcasts from Headquarters. The ongoing weekly television news feature series "UN in Action", was distributed by the Department in six languages to broadcasters in more than 100 countries. It is also available as streaming video on the United Nations web site. The video television talk show "World Chronicle" was rejuvenated and aired on major cable television stations in some 15 countries, including CNBC World (United States of America), SABC (South Africa), CCTV (China) and Orbit Communications (with satellite links in the Middle East). Both "UN in Action" and "World Chronicle" have extended their audiences as new international television stations formed partnerships with the Department to broadcast its products, including the annual United Nations "Year in Review", which is available in the six official languages. Over the past year, the Department has also considerably expanded its efforts to develop co-productions with major television broadcasters in different regions of the world, including Arts and Entertainment, Bloomberg TV, Discovery Channel International, RTVE (Spain and Latin America), RTP (Portugal and Africa) and Shanghai Media Group (China).

C. Other services to the media

33. The Department facilitates access by the media worldwide to cover United Nations activities at Headquarters by providing accreditation, liaison and other services. Between July 2003 and July 2004, and especially during periods of intense media interest, such as the General Assembly's general debate and meetings of the Security Council on Iraq and the Middle East, the Department issued 3,958 permanent accreditations and 6,229 temporary ones, undertook 17,751 liaison assignments, conducted 148 media tours for visiting foreign press and organized 8,386 stakeouts.

34. In an effort to draw media and public attention to important issues and crisis situations that often remain underreported, the Department launched a new project in April 2004, entitled "Ten stories the world should hear more about". The initiative, undertaken in consultation with the other departments of the Secretariat, as well as United Nations offices and programmes, was launched around World Press Freedom Day (3 May 2004). Through a series of television and radio interviews and op-ed articles, and with the active promotional efforts of United Nations information centres, this initiative has continued to draw keen media interest.

35. Continuous dialogue with media in all parts of the world is an important element of the Department's outreach efforts. As part of this strategy, which has been particularly concerned with the Middle East region, the Department held a successful week-long briefing programme for senior journalists and editors from the Middle East, with the participation of the Secretary-General and other senior United Nations officials. This will be followed by a two-week workshop for print, TV and radio journalists from the region, later in 2004.

36. Information on United Nations activities at Headquarters and abroad is also disseminated utilizing traditional print media, such as press releases, in English and French, and the production of the ever-popular and best-selling *Basic Facts about the United Nations* (a completely updated 2004 edition of which will be published soon) and *UN in Brief*, as well as the *Charter of the United Nations* and *Statute of the International Court of Justice* in all official languages. Press releases, *UN in Brief* and *Image and Reality* are also available electronically through the Internet.

D. United Nations web site

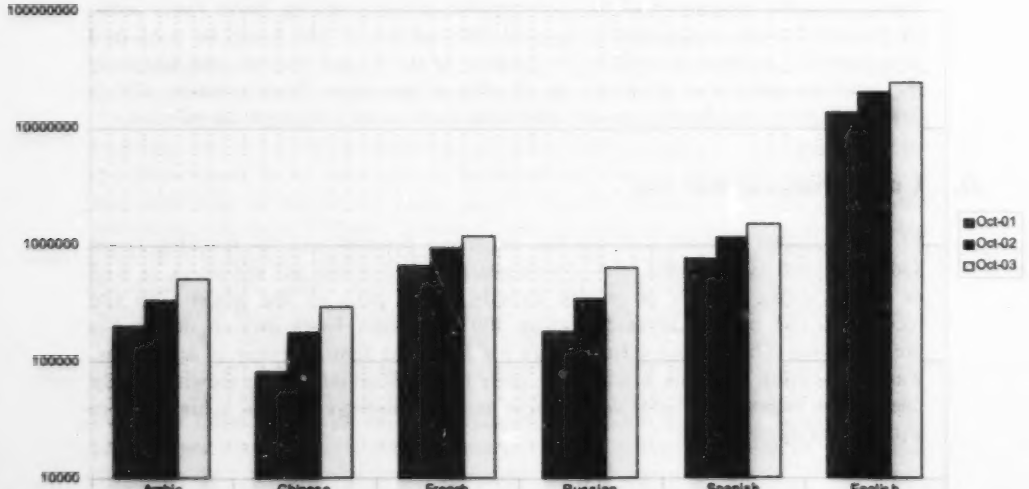
37. The United Nations web site has become a premier tool for reaching target audiences such as the media, non-governmental organizations and academia, as well as an increasing number of people directly, in all parts of the world. The site recorded 2,151 million accesses during 2003, up from 1,695 million during the previous year. The corresponding figure for 1996, the first full year of operations, was 11.5 million accesses. Users from more than 170 countries are viewing nearly one million pages of material daily. These accomplishments were all achieved from within existing resources.

1. Multilingualism on the United Nations web site

38. Increasing numbers of visitors are now using the United Nations web site as a resource across all official languages. The Department of Public Information has been encouraging and assisting other departments in the Secretariat to make their information materials available on the United Nations web site in all the official languages. To further increase the availability of material other than English on the Web, the Department has expanded its partnership with the academic community worldwide to translate information materials. Under the agreement with the University of Salamanca in Spain, its School of Languages has provided over 2,000 pages of material translated into Spanish, at no cost to the Organization. Similar agreements have been concluded with Shaoxin University in China and Minsk State Linguistic University in Belarus, and discussions are at an advanced stage for a similar arrangement for Arabic. The agreement with Minsk State University went into effect in April 2004 and the Department has already received nearly 100 pages of translated text.

39. Today, the official language sites are being used by an ever-increasing number of visitors (see chart 1 below). During the period from June 2003 to June 2004, the highest growth in terms of page views was registered by the Chinese web site, which saw a 271.70 per cent increase. Page view increases registered by other language web sites for the same period are as follows: Arabic (73.78 per cent), English (20.10 per cent), French (30.92 per cent), Russian (79.39 per cent) and Spanish (27.17 per cent). These increases are due in part to the additional resources that have been redeployed to the Web site Section. However, the overall level of resources will continue to constrain the pace at which progress towards full parity across all languages is made.

Chart 1
United Nations web site (un.org) page views: October 2001, 2002, 2003



	Arabic	Chinese	French	Russian	Spanish	English
Oct-01	200712	81541	655037	183436	753380	13306954
Oct-02	329581	175226	938067	342266	1135947	19811012
Oct-03	506369	288778	1177980	630460	1495974	23970668

40. In an important step towards linguistic parity on the United Nations web site, the Department completed work to make the United Nations News Centre online portal and the associated United Nations News Service available in all the official languages. Already one of the most heavily visited areas of the United Nations site, the multilingual news portal is drawing a steadily growing number of visitors, with the United Nations News Centre in English now exceeding five million page views a month. Using the database-driven news feed feature, an increasing number of United Nations departments and offices are automatically retrieving the latest stories from the United Nations News Centre onto their own web pages. An increasingly important role in bringing the latest news from the United Nations to a diverse worldwide audience is played by the United Nations News Centre's e-mail service in English and French, which now has over 27,000 subscribers in more than 100 countries. Work is currently under way to further enhance this service and to make it available in other official languages.

2. Webcasting

41. The successful development of the in-house capability for live webcasting has expanded the transparency of the Organization by providing webcasts of meetings of the General Assembly and Security Council, as well as the daily press briefings and most press conferences and other public events. More than 10,000 video clips are being viewed daily by visitors to the United Nations web site from all over the world through a completely redesigned webcast page. Webcast technology has also allowed the Department to improve internal communications with its offices away from Headquarters.

3. Search capability

42. The search capability on the web site has also been greatly improved, making materials easier to locate. All 177 search pages have been revised to enable the use of the new "Google" search engine since its formal installation in August 2003. Over 120 new subcollections have been set up to permit searches within areas of the site; 260 key matches have been incorporated; search logs are now analysed every week to determine what users are searching for and special pages and/or key-matches are then put into place to facilitate subsequent searches.

4. Accessibility by users with disabilities

43. The Department is undertaking a series of special measures to enhance the accessibility of the United Nations web site to users with disabilities, in consultation with the other offices of the Secretariat. The technical guidelines on United Nations web site development issued by the Working Group on Internet Matters are being revised to incorporate the requirements to ensure access to the web site by users with disabilities. Linked to this question is the use of appropriate guidelines and the need to consult on these issues, in collaboration with the Department of Economic and Social Affairs, with the representatives of people with disabilities. The top layer pages of the web site are being analysed and will be revised to conform to agreed requirements. In addition, the Working Group on Internet Matters has brought the issue to the attention of all content-providing offices, so that those offices can do the same for their pages.

V. Library services

A. Steering Committee for the Modernization and Integrated Management of United Nations Libraries

44. The Steering Committee for the Modernization and Integrated Management of United Nations Libraries, established in response to the call for a review of United Nations libraries in General Assembly resolution 56/253 of 24 December 2001, held five meetings, mainly through videoconferencing, from January 2003 to June 2004, to cover a variety of technical and organizational issues. Several of the technical initiatives launched by the Steering Committee, which is chaired by the Department of Public Information, have been completed. These include the online United Nations Bibliographic Information System (UNBIS) reference manuals and guides to cataloguing and indexing standards, which have been made available on the United Nations Intranet. In addition, a United Nations Libraries Gateway page has been posted on the Internet, a survey of field libraries undertaken and a listing of journal titles subscribed to by partner libraries has been created. Work has also progressed on increasing the comprehensiveness of the United Nations Official Document System as the core electronic collection of United Nations documentation.

45. The Steering Committee also encouraged support for the creation of a common library in Nairobi. As a result, the United Nations Environment Programme Library in Nairobi has been redesignated as a common library for the United Nations Office at Nairobi and, in June 2004, was renamed the Sergio Vieira de Mello Library.

B. Dag Hammarskjöld Library

46. As at June 2004, there were 396 active United Nations depository libraries worldwide receiving United Nations documents and publications. During the period under review, 11 libraries converted from paper to electronic deposit, increasing the total number of electronic deposit recipients to 127. Anticipating that the Official Document System would become free of charge in late 2004, a questionnaire distributed to the depository libraries requested information on each library's capability to access the Internet. Approximately 80 per cent of the 366 libraries that responded to the questionnaire indicated that they were "Internet-ready". As more depository libraries in developing countries are able to access the Internet, the importance of training in the use of United Nations electronic resources is increasingly critical to ensure that those libraries can be effective United Nations outreach partners. A workshop was held in Pretoria in July-August 2003 for depository librarians and United Nations staff members from Botswana, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland, Zambia and Zimbabwe. Hands-on practice enabled participants to become familiar with the Internet and United Nations research tools on the Internet. Additional outreach activities for depository libraries include an alerting service for major United Nations events, reports or services. In 2004, a total of 156 alerts were sent in two e-mail series, UN News Update and UN Deposit Info, to over 300 depository libraries.

47. Over the past year, the Library conducted more than 100 training sessions for some 800 trainees, including Secretariat staff, mission personnel, government

officials, internes, representatives of non-governmental organizations, depository librarians and visitors. To further enhance its outreach activities, the library organized an open house and a "training sampler" during the second quarter of 2004, featuring brief previews of all training courses offered by the library. The sampler, which was attended by over 100 persons, will be offered twice a year in the future.

48. The Dag Hammarskjöld Library web page continues its efforts to expand services available in the six official languages within the limits of resources available. In 2004, the UNBISnet search interface (http://unbisnet.un.org) was enhanced to take advantage of improvements made to the underlying software. The most significant change is in the creation of automated daily updated linkages to all of the documentation of the Official Document System for all language versions. A web-based user survey was undertaken, the first to be launched in all six official languages, resulting in over 500 responses. The results are being used to improve and develop library Internet resources.

49. The multilingual UNBIS thesaurus (http://lib-thesaurus.un.org) is the subject authority used by the Dag Hammarskjöld Library, the United Nations Office at Geneva Library, the United Nations Office at Vienna, the Economic Commission for Africa, the Economic and Social Commission for Asia and the Pacific, the Economic and Social Commission for Western Asia and the United Nations Environment Programme. The Dag Hammarskjöld Library has set up focal points for the thesaurus in offices away from Headquarters to encourage their staff's participation in thesaurus development and to ensure that the terminology remains relevant to users.

50. Library staff participate in and contribute to other Secretariat-wide and inter-agency initiatives through the work of the inter-agency Knowledge Sharing and Information Management Group of United Nations System Libraries, which includes the facilitation of access to the documentation systems among United Nations agencies and the United Nations Libraries Shared Catalogue and Public Access System; participation in the Second Administrative-Level Boundaries project of the United Nations Geographic Information Working Group; and through the Global Legal Information Network, a database of laws, regulations and other legal information coordinated by the United States Law Library of Congress.

51. Volumes 55 and 56 of the *Yearbook of the United Nations*, covering all the major activities of the Organization during 2001 and 2002, were published in August 2003 and July 2004, respectively. Work is now under way on the 2003 volume. A CD-ROM package containing the first 55 volumes of the *Yearbook* is currently available, and an updated package that will include volume 56 is under preparation.

52. The Library brings high-quality commercial information resources to desktops of official users. Acquisition of these services is coordinated for the United Nations system libraries by the United Nations System Electronic Information Acquisitions Consortium, led by the Dag Hammarskjöld Library.

VI. Outreach services

A. Non-governmental organizations

53. The Department of Public Information continued to provide an intensive information programme for non-governmental organizations (NGOs), including weekly NGO briefings, an orientation programme for new NGO representatives and communications workshops, in addition to the NGO web site and the NGO Resource Centre.

54. The fifty-sixth annual DPI/NGO Conference, entitled "Human security and dignity: fulfilling the promise of the United Nations", held in September 2003, drew 2,000 participants from more than 600 United Nations-affiliated NGOs in 86 countries around the world, 46 per cent of which came from 61 developing countries, double that of previous Conferences. Introduction of an interactive web site enabled NGOs and the general public access to live video and audio webcasts of all plenary sessions. The fifty-seventh Conference, to be held in September 2004, and entitled "Millennium Development Goals: civil society takes action", will feature parallel events held in cooperation with United Nations information centres in all regions of the world.

55. In the course of the year, the Department associated 62 new NGOs and disassociated 77 organizations that no longer met the criteria for association, bringing the total number of NGOs associated with the Department to 1,501 as at July 2004.

B. Educational outreach

56. The Department now offers a wide range of information and activities aimed at students of all ages, from kindergarten through graduate school and beyond. The Cyberschoolbus web site of its Global Learning and Teaching Project, which targets school-age children, continues to receive recognition, including receipt of the International Earth Day Award from the United States-based Earth Society Foundation and a citation from the Education Committee of the Conference of NGOs, as a model of good practices for its "Pumped Up for Peace" project that helps communities around the world without access to safe drinking water. The project is working closely with the Department for Disarmament Affairs and an advisory group of educators to establish developmentally appropriate guidelines for producing curriculum materials on disarmament, and to create new educational materials on this issue.

57. The principal vehicle of higher educational outreach is the *UN Chronicle*. Published quarterly in the six official languages, the *UN Chronicle* has strengthened its targeting of educators and institutions of higher education by featuring thematic clusters that can also be used as part of curricula. During the past year, the English online version registered an average of 72,500 page views per month, while the French online version registered 27,000 page views per month. These are augmented by the UN Chronicle Feature Service, which, through the United Nations information centres, redisseminates articles from eminent contributors to newspapers and magazines worldwide. In addition, the UN Chronicle Unit regularly broadcasts e-Alerts, highlighting a specific theme. A total of 14 e-Alerts were sent

between July 2003 and June 2004, and archives of all issued alerts are available online.

58. The Department launched a seminar series entitled "Unlearning Intolerance", which began on 21 June 2004 with a day-long meeting on "Confronting anti-Semitism: education for tolerance and understanding". The seminar, attended by over 600 persons, was a successful first step in engaging civil society leaders and a wider audience in ways to best meet the challenge of this form of discrimination. In a survey distributed at the venue, on a scale of 1 to 5, with 1 being "not useful" and 5 being "very useful", participants rated the seminar very useful overall (4.38). The "Unlearning Intolerance" series will continue to examine different manifestations of intolerance and explore ways in which education and civil society can work to help overcome them, with a seminar on Islamophobia scheduled to be held later in 2004.

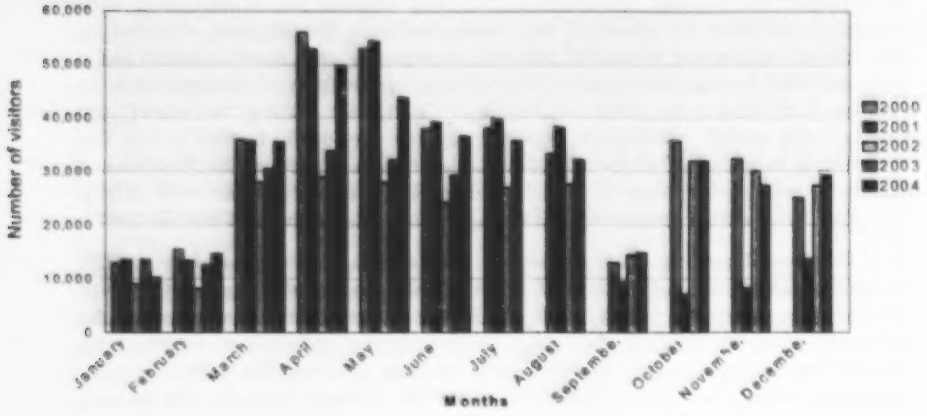
59. The groundbreaking television series, *What's Going On?*, initiated by the UN Works programme and hosted by United Nations Messengers of Peace and Goodwill Ambassadors, concluded in May 2004. Exploring critical global issues through the personal stories of children, the series is now being marketed to international broadcasters and to schools. UN Works also initiated a partnership with Discovery Communications Inc., in collaboration with the United Nations Educational, Scientific and Cultural Organization, to produce and broadcast television spots about cultural diversity and indigenous people.

C. Public relations

Guided tours

60. Over the past year, the Department has continued to engage in a wide range of outreach activities through its Public Relations Section. Some activities, such as the guided tours operation, have a history that is almost as long as that of the Organization itself, while others have arisen from new initiatives, such as the filming of the movie "The Interpreter" on location at United Nations Headquarters. The Department hopes that when released next year, the film will motivate its audiences to learn more about the Organization, particularly at a time of increased media attention to the United Nations, and a general rebound in tourism, both of which have also led to a rise in the number of visitors taking the guided tour. This year, attendance has exceeded expectations by nearly 10 per cent, and is finally approaching the level that existed prior to 11 September 2001 (see chart 2 below).

Chart 2
Guided tour attendance (2000-2004)



Exhibits

61. A total of 24 exhibits mounted over the past year have covered the range of issues before the Organization, including Africa, ageing, hunger, HIV/AIDS, indigenous peoples and World Heritage sites. Such exhibits are generally sponsored by a United Nations agency, programme or department and are often mounted in cooperation with NGOs or the private sector, and can move to additional venues after their display at Headquarters with the support of the Department. For example, a World Food Programme exhibit, entitled "Food for Life", was installed in downtown Manhattan, in New York, after it concluded its run in the United Nations Visitors' Lobby; and another major exhibit, commemorating the birth centenary of Ralph Bunche, "Ralph Bunche: diplomat for peace and justice", which ran from 11 April to 4 July 2004, later travelled to the Queens Museum of Art in New York for installation there.

62. The Department has increasingly sought to integrate exhibits with other outreach efforts. Ralph Bunche's legacy, for example, was also the subject of three seminars organized during the year by the Department in cooperation with the Ralph Bunche Institute at the time of the exhibit. Similarly, an exhibition of photographs on the Jewish Diaspora coincided with the seminar "Confronting anti-Semitism". Seminars on Ralph Bunche were held on 4 September 2003 (on the Middle East), 20 November 2003 (on peacekeeping) and on 5 February 2004 (on civil society). The seminar on anti-Semitism was held on 21 June 2004 and the Diaspora exhibit ran from 15 June to 9 July.

Special events at United Nations Headquarters

63. Efforts continued this past year, as part of an initiative launched by the Secretary-General, to reinvigorate traditional sources of support for the Organization and its objectives. A day-long series of briefings and interactive discussions on issues before the United Nations was held on 7 October 2003 for over 100 African-

American leaders of civil society, NGOs, academic institutions and local governments. The Department also organized an open house for nearly 400 New York City school principals on United Nations Day, to encourage them to send their students to visit and learn more about the United Nations.

64. The Department has made greater use of new technologies to link with students and other groups in locations away from Headquarters. With the help of videoconferencing, students participating at United Nations Headquarters in programmes for the International Day of Peace, Human Rights Day and World Environment Day have shared their experiences with others at sites that included Afghanistan, Australia, Canada, Croatia, the Dominican Republic, Greece, Mexico, Sierra Leone, Trinidad and Tobago, as well as at several peacekeeping missions and at a number of locations in the United States. An added feature of such programmes this past year was the ability of those watching the webcast to interact with those at Headquarters, sending questions and comments from around the world to bulletin boards set up in collaboration with the United Nations Cyberschoolbus.

Training programme for journalists from developing countries

65. Yet another area of outreach is the Department's six-week programme for journalists from developing countries, renamed last year the Reham Al-Farra Memorial Journalists' Fellowship Programme, in honour of a young radio journalist and staff member from the Department who was among those killed in the 19 August 2003 bombing of the United Nations office in Baghdad. This programme, established in 1981 by the General Assembly, provides young media professionals from developing countries the opportunity to acquaint themselves with the work of the United Nations and to cover United Nations activities on behalf of their news organizations. As of 2003, 341 broadcasters and journalists from 150 countries had taken part in the programme. In 2004, the training programme will be held from 7 September to 15 October, with a total of 12 print and broadcast journalists from Belize, Brunei Darussalam, Djibouti, Grenada, Guyana, Iraq, Latvia, the Libyan Arab Jamahiriya, Pakistan, Romania, Solomon Islands and Somalia.

D. Partnerships

66. In April 2004, the Department was given responsibility for the programme of activities of the nine United Nations Messengers of Peace, a function for which the Office of External Relations in the Executive Office of the Secretary-General had prior responsibility. Using their time and talent, these distinguished men and women help to focus global attention on issues such as post-conflict situations in Afghanistan and Sierra Leone, human rights, least developed countries, disarmament, poverty eradication, HIV/AIDS, the needs of children worldwide, refugees, women's empowerment and girls' education, and the observance of the International Day of Peace. In 2003, five Messengers of Peace — Mohammad Ali, Anna Cataldi, Michael Douglas, Jane Goodall and Elie Wiesel — participated in a videoconference for students organized by the Department in observance of the International Day of Peace. The Department will continue to work closely with the Messengers to maximize their unique outreach ability and will also work with other United Nations entities in respect of their individual goodwill ambassador programmes.

67. In its mission to promote an informed understanding of the purposes and activities of the Organization and its identification with the peoples whom it serves, the Department will collaborate with external partners on a range of activities in observance of the sixtieth anniversary of the United Nations in 2005.

E. Sales and marketing

68. During the period under review, two notable developments were the introduction of a multilingual e-commerce web site for the sale of publications, and the launch, in conjunction with the Statistical Division of the Department of Economic and Social Affairs, of the online database UNCOMTRADE. Marketing campaigns undertaken included 20,000 copies of the new United Nations publications catalogue, distributed in January in print and CD-ROM format; advertising in targeted media to promote new titles; distribution to selected customer groups of thematic flyers and brochures in print and electronic format; and subscribers to *E-news*, the monthly publications newsletter online, benefited from regular information on upcoming publications. Over 500,000 potential customers were reached during the period. The New York Bookshop also launched a monthly newsletter and e-mailed it to all New York-based staff and permanent missions, organized 18 book-signing events and introduced a gift card and a frequent purchase card.

69. As in previous years, the Department actively pursued cooperation with other funds and programmes to support the promotion of their books. An agreement was reached with the Food and Agriculture Organization of the United Nations to promote a select list of their titles through the sales programme. *Development Business*, itself a product of cooperation between the Organization, the World Bank and the regional development banks, expanded its coverage of procurement notices to include major United Nations bid notices and introduced a new subscriber management system.

F. Copyright and external publishing

70. During the period under review, the contracts for the co-publishing of the *UN Chronicle* in Arabic, Chinese, Russian and Spanish were successfully renewed for the biennium 2004-2005 with a number of publishers. The United Nations quarterly publication will thus continue to be available in all six official languages, as the English and French issues are produced in-house via cost-effective printing arrangements. Agreements were also signed with a number of companies specialized in electronic publishing to promote, distribute, and sell United Nations publications online, via their services, in electronic format. As a result of those agreements, a significant increase in dissemination of United Nations titles is expected.

VII. Culture of evaluation

71. As part of a three-year collaborative project with the Office of Internal Oversight Services, in compliance with Member States' mandate to evaluate all Department of Public Information activities (General Assembly resolution 57/300 of 20 December 2002), the Department has enabled its managers to be increasingly

competent in assessing results, while ensuring accountability, through an annual programme impact review. Similar to the current biennial budget and the new strategic framework for the period 2006-2007, the annual review uses a results-based management template, but is designed as an internal tool to assess performance. Therefore, it includes a far greater level of detail on measuring results than the information for compliance with reporting to intergovernmental and oversight bodies, such as the programme performance report. At the present halfway point through the three-year endeavour with the Office of Internal Oversight Services, Department of Public Information managers are in the process of applying lessons learned to refine their self-evaluation methodologies. The baseline data collected as part of the review were also incorporated into the present report.

72. This shift has been achieved without additional resources. Programme managers have successfully measured reach and client satisfaction with the quality of Department of Public Information products and activities. Where practicable, the next step would be to collect feedback through large-scale audience research worldwide in order to track opinions and awareness and understanding of the image and the work of the Organization as a whole.

VIII. Conclusions

73. The communications and public information challenges facing the United Nations are best handled when its messages are strategically targeted, the most effective tools of dissemination are used and the extent of their effectiveness is continually monitored and evaluated.

74. Through the reorganization process, the Department of Public Information has acquired the tools it needed to deliver on the challenges set for it in my 2002 report on strengthening of the United Nations: an agenda for further change. After a period of transition, which entailed numerous client meetings, communications strategies and defining objectives, initial problems with the untested new structures and processes have been overcome. The reformed and restructured Department now understands what is expected of it, is mastering the means to deliver on those expectations and has gained practical experience in their execution. It is ready to apply the lessons learned, as well as its new-found confidence, to further improve the products and services it offers. By reaffirming their support for the new direction the Department has taken, Member States can play a key role in bringing their United Nations closer to people around the world.

Notes

[1] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 21* (A/59/21).